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THE 1987 MANITOBA BUDGET ADDRESS

The Honourable Eugene Kostyra
Minister of Finance
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1987 MANITOBA BUDGET ADDRESS

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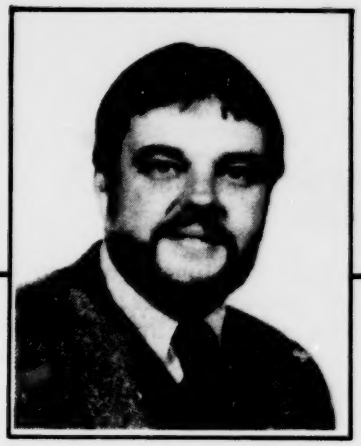
Summary of Manitoba's Budgetary Position, 1987/88

NET BUDGETARY REQUIREMENT

	($ millions)
Budgetary Expenditure	4,188
Budgetary Revenue	3,773
Net Budgetary Requirement	415

NET OPERATING POSITION

	($ millions)
Net Budgetary Requirement	415
Less Capital Expenditure	257
Net Operating Requirement	158



THE 1987 MANITOBA BUDGET ADDRESS

INTRODUCTION

Tonight, I am pleased to present my second Budget to the Legislature and to the people of Manitoba.

Our commitment to the fundamental New Democratic Party belief -- that economic and social progress go hand in hand and depend on policies of fairness and equity -- is at the heart of the 1987 Budget. I believe this Budget will protect and enhance the quality of life enjoyed by Manitobans throughout our province.

Economic progress -- working together and developing our Province's full potential through effective private/public co-operation -- will be complemented by taxation and expenditure measures that emphasize fairness and the necessity for continued social progress.

Our NDP Government responds to the needs of people. In preparing for tonight's Budget, I spoke with and listened to many Manitobans -- farmers, workers, senior citizens, and those from co-operatives, labour, business, public and private agencies -- Manitobans from all walks of life and all regions of the province.

I wish to thank all of them for their time, their interest and their advice. They provided valuable insights. Not everyone providing advice will agree with all the Budget measures I will announce tonight. Nonetheless, I believe that, as a result of those discussions, there exists today a better, shared

understanding of both aspirations and objectives, and of the limits and constraints facing our Province.

Manitobans are justifiably proud of their accomplishments. Over the past five years, our economy has been revitalized through co-operative efforts and plain hard work. But there are more challenges to meet. There are severe problems in agriculture. Commodity prices are too low. Unemployment remains too high. There are outstanding debts. We must -- and we will -- continue our careful economic and fiscal management and strive for sustained progress toward both our social and economic goals.

Many Canadians have seen the results of traditional Liberal and Conservative policies which put short-term fiscal balance sheets ahead of balanced social and economic development. Such policies have exacted a terrible price in greater inequality, lost jobs and human dignity. Not surprisingly, such policies have also failed to produce balanced budgets. Those policies simply do not work.

In Manitoba, economic growth has been enriched by our social progress. Putting people and their needs first -- works.

Tough choices and difficult decisions are a part of every Budget. But today's Budget was made more difficult by ongoing erosion in the federal commitment to health and higher education, a major reduction in equalization support, and the continuation of an unfair tax system.

Manitobans have told this Government that our farmers must be supported as much as possible in the current crisis. Manitobans have told us that our hospitals, Medicare programs, our education system and our social services must be protected. We pledge to follow that advice. Manitobans have also told us they are willing to pay their fair share to protect these vital services.

The Budget will propose measures to:

- maintain a commitment to economic and social progress;
- promote even greater efficiency and effectiveness in program and service delivery; and

- provide a sound fiscal framework to secure needed public services not just for today, but for future generations.

This Budget proposes new measures to aid farmers and low-income Manitobans.

This Budget provides necessary funding for job creation, health care, education, farmers, seniors, child care, and other priority services for people.

New revenue measures will be fair and balanced, ensuring that all participants in our society contribute a fair share to maintaining our vital social services, based upon ability to pay.

Manitobans together have built a stronger economy which is providing more jobs. Our record on social services is second to none. The quality of life enjoyed in our province has never been higher. Our challenge tonight and for the future is to build upon these strengths, to achieve an even stronger, fairer and more compassionate Manitoba.

THE ECONOMY - SUSTAINING GROWTH - CREATING JOBS

Since our New Democratic Government was elected in 1981, our economy has moved from nation-trailing to nation-leading, and Manitobans are sharing the benefits of the economic and social revitalization.

We have built an active partnership with business and labour and co-operated with other governments in order to strengthen our economy. Our Government's efforts range from direct investment, to encouragement and assistance to industry, to training, to standing firmly for the interests of Manitoba.

Jobs

More Manitobans are working than at any time in our history. Last year 13,000 new jobs were created, a record not matched since 1974 and equalled only four times in the last quarter century.

In seven provinces unemployment rates in 1986 were higher than in the recession year of 1982. Manitoba was among only three provinces with lower unemployment rates -- and at 7.7% -- we had the second lowest rate in Canada, for the fourth consecutive year. And last month our province recorded the lowest unemployment rate in the country.

The Government is prepared to act in partnership with enterprising Manitobans to build our economic foundations and enhance job opportunities throughout our province.

Manitoba Jobs Fund development agreements provide an innovative way for government and business working together to preserve and create jobs, diversify production and achieve historic milestones in social development.

For example, with assistance under Jobs Fund development agreements:

- Carnation Foods Ltd., has expanded its plant in Carberry -- creating at least 50 new jobs, increasing demand for Manitoba potatoes, contributing to further agricultural diversification, and expanding international markets for Manitoba products.

- Palliser Furniture will complete a $14 million expansion of its operations, creating more than 340 new jobs and making this Winnipeg-based company the largest case goods furniture manufacturer in Canada.

- Guertin Bros. has moved into a new expanded Winnipeg facility after considering relocation to the United States. Seventy new jobs will be created. Their research and development initiatives in the high-tech polymer and resins industry, and precedent-setting pay equity and affirmative action provisions in the development agreement, reflect a progressive management approach that symbolizes the Jobs Fund's capacity for meaningful long-term change.

Employment programs have provided many Manitobans with valuable work experience to launch their careers, and helped others to start co-operative enterprises.

The Manitoba Jobs Fund Employment Co-operative Program encouraged the incorporation of 23 co-ops since it was implemented a year and a half ago.

- An imaginative example is a Reforestation Co-op formed by three young people. A Jobs Fund guarantee of a credit union loan helped launch the venture and create many more jobs for student and non-student workers.

- Another success story is Vent Air Industries Co-op Limited. Employees faced with the fact their company had been placed in receivership, formed a co-operative, and with Jobs Fund assistance, and expertise and guidance from the Department of Co-operative Development, purchased the company. Today, the company is functioning well, has secure production contracts, and has succeeded in the workers' goal -- job preservation and creation.

Agriculture

All Manitobans -- northern and southern, urban and rural -- recognize that agriculture is not only the backbone of the rural economy but also integral to the health and vitality of the entire province.

In my own urban riding of Seven Oaks, constituents told me of their concern over the fate of our family farms. When our farm community suffers, we all share the pain.

Our grain farmers are confronted by depressed prices. Their livelihoods and the viability of their farms are threatened by national and international forces beyond their control. Prospects of continued massive subsidies by major grain exporting countries, and even lower prices in the year ahead, leave a great many Canadian producers facing a more uncertain future.

Farmers were only beginning to recover from the tragic effects of the record high interest rate policy of the early 1980s. While many livestock and dairy farmers managed to pull through that crisis, to re-establish a better financial basis for their operations and to begin to repay debts, our grain farmers are hit once again.

Our Government has made support to Manitoba's farm community a top priority. We introduced interest relief programs with our first Budget.

We have focussed assistance on meeting the urgent concerns of our farmers. Measures have included the following:

Financial support through the lending authority of the **Manitoba Agricultural Credit Corporation** (MACC) including Interest Rate Relief, Operating Loan Guarantees, the Part-Time Farmer and Comprehensive Re-Financing programs and Direct Loans. Loan, interest assistance and related activity over the past five years amounted to more than $300 million.

The recently announced **FarmStart Program** will ease the transfer of farms from one generation to the next by providing beginning farmers with low-cost mortgage credit and giving retiring farmers a secure income and a continued investment in agriculture.

The **Manitoba Mediation Board** has been established to provide assistance to farmers in severe financial distress.

Stabilization programs have been strengthened to assist farmers to maintain herds and breeding stock and to protect income from severe declines due to volatile prices.

- The **Manitoba Beef Stabilization Plan** provided $6.5 million in net support to producers in 1986, bringing total assistance to $58.6 million since it began in 1982.

- The **National Tripartite Hog Plan** replaced the Manitoba Hog Income Stabilization Plan in 1986. Provincial Government premiums for 1986/87 totalled $3.5 million. Since the Manitoba Plan began in 1983, total assistance has amounted to $16.1 million.

The provincially administered **Crop Insurance** program provides farm income protection against crop losses. Our Government has successfully worked with farmers to extend coverage of the program, and in 1986/87 contributed $5 million to its operation.

Agricultural research at the University of Manitoba was supported by an $875,500 grant.

Special Child Related Income Support Program payments of up to $360 per child for farm families were provided in 1986 and the asset limit was increased so that more farm families could receive benefits. An estimated 1,250 farm families will qualify for $1.2 million in special benefits during the 1986/87 program year.

Exemptions are provided by the Provincial Government from the Retail Sales Tax for virtually all agricultural inputs, from fuel taxes, and from Corporation Capital Tax, and there are a number of special provisions for farmers under the income tax system. The value of these measures is more than $80 million annually.

Members will recall last year that our Government acted when the oil industry denied farmers the benefits of the provincial fuel tax exemption by charging higher prices on tax-exempt coloured fuel. We instituted the **border dyeing program** so that farmers could purchase fuel in the more competitive U.S. market. That program resulted in the oil industry reducing prices and providing farmers with more than the full benefit of the fuel tax exemption. To permanently by-pass the oil industry and pay farmers directly, we also approached the federal government to arrange a **Manitoba fuel tax credit** on income tax

returns. However, the federal government refused to permit this benefit to be delivered through the income tax system.

The **Manitoba Tax Credit Programs** provide about $19 million in assistance to Manitoba's farmers.

Much has been done. In my recent consultations, Manitobans from Beausejour to Swan River recognized the value of our Government's many programs which support our rural and farm communities. They also said more must be done for our farm community. Whether or not they are farmers, Manitobans know the vital role our family farms play in the social and economic well-being of our province. And more will be done. Tonight I am announcing a number of new initiatives to help support our farm community.

First, the **border fuel dyeing program** will be repeated again this year starting April 13, 1987. We have ensured that lower-priced American fuels will be available to Manitoba farmers at the same low prices offered to American farmers.

Second, special arrangements are now being finalized with the Manitoba petroleum industry to enable farmers to receive **tax-free coloured unleaded gasoline** throughout the province.

Third, for farmers in severe financial distress and where potential viability exists, the Manitoba Agricultural Credit Corporation will offer client farmers **long-term lease arrangements** with an option to repurchase their farms. This initiative -- which I hope will be followed by other private and public financial institutions -- will improve the cash flow of farmers and assist many of them to continue farming.

Fourth, the **Guaranteed Operating Loan Program** will be expanded to encourage credit unions to participate in the provision of operating capital to farmers. The Province is prepared to guarantee losses incurred by credit unions, up to 12.5% of the operating capital extended to their farm members.

Fifth, an **interest rate buy-down program** will be initiated to reduce the annual debt obligations of Manitoba Agricultural Credit Corporation clients. This $29 million initiative will be focussed on younger and beginning farmers with limited net worth, and financed through additional capital authority.

Sixth, a **special Farm School Tax Assistance Program** will be introduced to provide $12 million to help with one of the significant fixed costs facing farmers -- school taxes. The Program provides maximum benefits of $500 per farmer, to supplement other Property Tax Credit Programs.

Together with existing property tax assistance, the special Farm School Tax Assistance Program will effectively eliminate school taxes for 25,000, or two-thirds of Manitoba's individual farmers. We are asking the co-operation of municipalities to ensure the assistance is delivered quickly.

My colleague, the Minister of Agriculture, will be announcing full details of these initiatives in the near future.

The problems in agriculture cannot be resolved by Manitoba alone. Concerted national action is also essential. We will continue to urge the federal government to fulfil its commitments to farmers. We will remind Ottawa of its promise to institute a national loan guarantee program -- a program of crucial importance to farmers during these difficult times. We will urge the federal government to make a long-term commitment to grain farmers, by protecting them against declines in income caused by unfair subsidization by the European Economic Community and the United States. As well, the Province will be calling on Ottawa to conduct a major review of all federal and provincial support and stabilization programs and to examine the possibility of developing a comprehensive national program aimed at guaranteeing farmers a reasonable minimum income -- an income which will allow them to continue farming and to live in dignity.

In summary, budgetary spending for agriculture will increase $14 million or 20% to $85 million -- the largest percentage increase for any Department this year, and more than twice the amounts budgeted by the Conservative government in 1981/82. In addition, farm financial assistance through the Manitoba Agricultural Credit Corporation is expected to total $84 million in 1987/88.

Small Business

Small businesses, and the men and women who manage and work in them, make important contributions to the economy. Our Government has developed a strategic partnership with industries and individual enterprises to help small business get started, grow and prosper.

The Manitoba Jobs Fund Venture Capital Program has led to the establishment of 67 corporations supporting 1,200 jobs. With $5 million in public funds, some $20 million in private business investment has been secured.

- A good example is Weston Plastics, whose owner says that the advice and encouragement of the Manitoba Government is directly responsible for the establishment of his firm in the province. Venture Capital has provided the firm with equity capital to build the operating base from which the firm is considering expansion and diversification.

The Manitoba Jobs Fund Technology Commercialization Program gives financial assistance for adaptation or commercialization of new products or process technologies. Some 30 firms were involved in the Program in 1986/87, primarily in technology transfer and new business assistance.

- Among them is Ambutech, a firm showing promise of international growth. Ambutech was established with funding secured through the New Business Assistance, and Investment components of the Jobs Fund Technology Commercialization Program, and produces innovative walking aids, using modern plastics technology. Many in this House are aware that Ambutech has been a winner of the Premier's Design Award for product excellence in Manitoba.

Our Government also reduced the small business Corporation Income Tax, increased the capital tax exemption to $1 million, increased sales tax commissions to smaller retailers, and exempted 18,000 smaller employers from the Levy for Health and Post-Secondary Education.

In the last three years the number of establishments in Manitoba employing fewer than 20 persons increased by more than 5,000, to over 32,000 -- that is 5,000 new establishments in our province and it is evidence of the success of our policies.

The programs I have just mentioned are but a few examples of the innovative approach through which the efforts of government, business and individual Manitobans have been co-ordinated to create jobs and secure opportunities.

Tonight, I am pleased to announce a new initiative to strengthen further our small business sector.

Our Government has worked with the Winnipeg Business Development Corporation to establish a **Manitoba Small Business Growth Fund.** The purpose of the Fund will be to provide equity investment to finance the creation and expansion of small and medium-sized businesses, primarily those needing up to $250,000 in equity financing. The Province will provide 25% of the initial $5 million capitalization for the Fund.

The new Manitoba Small Business Growth Fund will complement the Small Business Development Bond and Venture Capital Programs to secure greater access to the equity financing needed by small businesses to create jobs.

Later in my Address, I will have more announcements of interest to our small business community.

Investment

Manitoba has attained new, higher levels of investment spending and construction activity in recent years. From the recession low in 1983 to 1987, non-residential capital investment growth is second only to Ontario's. And, in 1987, total investment is expected to reach $3.6 billion.

Housing

The availability of high-quality, affordable housing for Manitoba families has never been better. A significantly greater proportion of houses are purchased by young people in Winnipeg than in other major cities. Renters of one-bedroom apartments can expect to save between $600 and $900 annually compared with renting similar accommodation in Halifax, Ottawa, St. John's, Vancouver or Toronto.

Housing starts which increased by 17.4% last year, included 4,791 single-family homes, the greatest number since 1974. Existing homes and apartments have been upgraded. The newly renovated Warwick co-op apartments are a good example of what can be accomplished in restoring older neighbourhoods.

Limestone Construction

The construction of the Limestone Generating Station, brought forward by the successful negotiation of long-term export power sale contracts, is now providing a major impetus to the Manitoba economy.

In 1987, construction will employ 1,650 women and men, with related economic activity adding significantly to this total. Northern Manitobans in particular appreciate the significance for the North, and for Manitoba as a whole, of the development of a northern and northern native skill base -- journeymen carpenters, mechanics, electricians, surveyors, technologists and engineers.

The individuals themselves best exemplify the impact of these initiatives:

- the woman from Norway House, for example, who is now in the second year of the engineering program at the University of Manitoba;
- the unemployed father from Gillam, one of the first to complete the rebar course at Thompson, is now working at Limestone;
- the individual from South Indian Lake who trained as a heavy equipment operator and now works as an instructor for the Limestone Training Agency in Thompson.

With most major Limestone contracts awarded, Manitoba content has reached 90% of the value of all contracts -- providing more benefits for Manitoba firms and our economy. This means even more jobs for Manitobans.

North Portage Development

Building upon the Core Area Initiative, the current phase of downtown North Portage Development in Winnipeg involves more than $150 million in private investment. The new $37.6 million Investors Group head office is scheduled for completion this year. The retail complex will involve $68 million of private investment, and established retailers have undertaken additional renovation and upgrading in anticipation of renewed vitality in the area.

The Jobs Fund is playing a role in the enhancement of Manitoba's cultural and arts mosaic. The Jobs Fund presence is seen in the new Royal Winnipeg Ballet facility and in the new Portage Place project, featuring the impressive IMAX theatre.

More people will be living and working in the central area of Winnipeg. Our Government initiated the Infill Housing program under which single-family ownership homes have been built in core area neighbourhoods -- many for single-parent and low-income families. Private developments are further revitalizing the inner city by building on available land. With assistance from the RentalStart Program, a 376-unit residential complex is under construction in the Portage Place Housing project. Later this spring, work is expected to begin on the Kiwanis Club 106-unit seniors' apartment building.

This Budget confirms our commitment to job creation with an investment of $566.8 million in budgetary authority for economic development complemented by a non-budgetary capital spending program of $948.1 million. Our total economic initiative of services and financial investments is up by $49.3 million or 3.4% from 1986/87.

Summary and Outlook

Manitobans' successes, achieved through co-operative public and private sector initiatives, are reflected in more jobs, continued economic growth, a high level of investment and increased personal incomes.

Gross Provincial Product in Manitoba has risen faster than in Canada in the 1980s. As a result, from 1981 to 1986, personal income in Manitoba also increased -- from 90% to 94% of the national average per person. Average income per person reached $15,760 last year, an increase of nearly $4,900 since 1981, representing average annual growth of 7.7% compared with 6.9% in Canada.

In 1986, Manitoba's real output of goods and services was up about 3.5%, well above the national average increase of 3.1%. However, lower prices for agricultural and other primary exports, continued price increases for many imported goods and weaker markets for some sectors, such as manufacturing, constrained nominal growth. As a result, current dollar Gross Provincial Product increased by 5.3% in 1986, somewhat less than might have been expected on the basis of Manitoba's above-average real output performance.

Gross Provincial Product in Manitoba remains about 6% or $1,200 per person lower than the national average. This is why our fiscal capacity to raise Provincial revenue is lower than the national average. And it explains why we continue to need a fair, national equalization program.

For the Canadian economy, 1986 marked the slowest growth since recovery began in 1983. A further reduction is likely in 1987 as more moderate rates of expansion are realized in the fastest growing parts of the country and the eastern and western regions continue to experience relatively slow growth.

Manitoba is expected to be a growth leader among provinces again in 1987, with real growth of close to 3%. Employment is expected to increase by a further 2%, and the unemployment rate will decline for the fourth consecutive year.

A detailed **Economic Review** is included in the Budget Papers.

QUALITY OF LIFE FOR MANITOBANS

The economic health and vigor of Manitoba provide one basic part of the security and opportunity which make for a high quality of life for Manitobans. It provides jobs, incomes, homes and business opportunities. But economic growth must be complemented by a progressive social policy if its rewards are to be fairly shared by all our citizens.

Our New Democratic Government rejects the Liberal and Conservative philosophies which are leading some governments to drastically cut back the share of the nation's resources being devoted to vital services. In fact, a recent study by the International Monetary Fund stated that "in 1980, Canada's government social expenditure ratio was among the lowest of the seven major industrial countries." And since then, as the Library of Parliament noted, the federal government has further reduced the share of Gross Domestic Product for social services -- including health and higher education.

In these times of renewed economic growth, is it fair that governments should allow our health system to deteriorate?

Is it fair to reduce access to services for the poor?

Is it fair to reduce the level of services provided to our senior citizens whose efforts laid the foundation for our economic prosperity?

Our New Democratic Government believes the answers are clear -- services for people must be protected. Governments have the responsibility to ensure that economic growth is shared fairly and translates into improved quality of life for all.

Our Affirmative Action program ensures that jobs and opportunities are available to more Manitobans. Pay equity, essential for economic equality in the workplace, will ensure fair payment for the value of work performed without reference to gender. We are proud to have increased the minimum wage to ensure that large numbers of working Manitobans have a more adequate income to meet their needs and those of their families. We have acted to

remove the unjustified differential in minimum wage protection for young people.

This Budget proposes a $209 million or 9% increase for social programs bringing the total to over $2.5 billion. Over half the increase will be devoted to protecting and improving health care and for meeting expanding health care needs. An additional $41 million will be invested in education. A further $49 million is proposed for needed social services provided through the Departments of Employment Services and Economic Security, and Community Services.

The range of services provided is indeed extensive. Details of major services are included in a new Budget Paper -- **People and Programs: Services to Manitobans.**

Health

Over 900,000 Manitobans use their hospital or Medicare programs each year. Our Government is committed to maintaining quality health care for all and in particular for the growing numbers of elderly Manitobans who require more from our health care system. Over 31% of budgetary expenditure is required for meeting health care needs.

In order to provide better care, meet the needs of our seniors more effectively, and reduce demand on high-cost acute-care hospitals, this Budget proposes a 40%, $9.6 million increase in the **Home Care** assistance budget to $33.5 million.

In total, resources for health care will increase $118 million or 9.8% to $1.327 billion. In keeping with our priorities, an estimated $7 million of surplus lottery revenue will be targeted for health care for Manitobans. In light of rapid growth in lottery revenue of over 200% since 1983/84, this will be accomplished without any reductions in support to current recipients by using surplus lottery revenue. The Minister of Culture, Heritage and Recreation will continue her consultations with community groups to ensure that their concerns are taken into account fully and fairly.

Support to Education

This Budget invests an additional $41.5 million or 5.9% in education for students in schools, community colleges and universities. Support to elementary and secondary education will grow by $26.5 million or 6.4%, providing continuing evidence of the high priority our Government places upon quality education for our children. Under our Government, the increase in support for public education has far exceeded inflation since 1981/82. Per-pupil support has increased more than 55% since that time. This year each school division will receive at least a 3% increase in block and equalization grants.

Grants to universities will total $174.8 million, a 5.1% increase this year.

In addition, I am pleased to announce a new $20 million **Manitoba Fund for University Development.** High-quality university education requires additional investment. The Minister of Education will announce details of the Fund following consultations with the universities and the Universities Grants Commission. This five-year program will complement the universities' fund-raising efforts such as the "Drive for Excellence" campaign currently under way at the University of Manitoba.

Income Security and Job Opportunities

Manitoba has protected the interests of social allowance recipients. We increased allowances at a rate which exceeded the rising costs of basic necessities. We have also maintained the Child Related Income Support Program payments for families and doubled benefits under the 55 PLUS Program.

To help further, Manitoba recently concluded a new Agreement with the federal government on Employability Enhancement for Social Assistance Recipients. This Agreement will considerably expand employment and training opportunities for Manitobans on social assistance, helping about 1,800 recipients to gain skills and work experience each year.

Ten million dollars has been allocated for **Job Training for Tomorrow.** The Program offers wage assistance to encourage the creation of positions which provide on-the-job training and

skill development for unemployed Manitobans. Job Training for Tomorrow includes special provisions to:

- expand opportunities for **Women in Non-Traditional or Technical Occupations**;
- address **Employment Adjustment** related to technological change, economic expansion, layoffs and closures;
- expand job opportunities for special needs individuals including social assistance recipients, disabled persons, Natives, disadvantaged youth, visible minorities and people age 55 or over.

55 PLUS -- School Tax Assistance

Special school tax assistance of up to $175 now will be extended to all people age 55 or over on the basis of income. This initiative builds upon the benefits available through our 55 PLUS Program. Those with incomes below $15,000 will qualify for full benefits and people with higher incomes will receive reduced assistance. Previously, only people with pension income qualified for benefits irrespective of their income level. More than 26,000 people -- almost 20,000 more than previously -- in the age group 55 to 64 will now be eligible for school tax assistance. Farmers will be major beneficiaries under this initiative. About 4,600 more farmers will now qualify. With the change, 10,700 farmers will receive benefits of $1.7 million.

Child Care

Manitoba's accomplishments in child care are second to none in Canada, yet much remains to be done. The Budget proposes an additional $5 million or 21% for child care to provide more spaces, staff enhancement and parental subsidies. Funded spaces will surpass 11,000 in 1987/88, up 35% from 1981/82. The commitment to quality within the program includes funding for staff training and salary enhancements, facility upgrading, and expanded infant care grants. Single-parent and other families with low income qualify for assistance to ensure affordable quality care for their children. Manitoba will continue to be a leader in making available quality, not-for-profit, public day care.

Support to Municipalities

Support to municipalities provided through the Departments of Municipal and Urban Affairs, including the Local Government General Support Grant, and to local taxpayers through Property Tax Credit payments will total $323.9 million, up 5.3% from last year. In addition, Provincial-Municipal Tax Sharing payments will increase by $4.3 million or 12% to a total of $39.8 million.

...

The New Democratic Government of Manitoba remains committed to providing the public services essential to the quality of life enjoyed by Manitobans. They must be delivered in an effective and efficient manner. Internally we have taken measures to better direct resources to priority areas. Manitobans appreciate the dedication of the many agencies and employees delivering services to Manitobans. Together we will sustain social progress in Manitoba.

STATUTORY FINANCE PAYMENTS

Public Debt Costs

Over the years, Manitobans collectively have incurred debt where necessary to secure opportunity, improve our quality of life and invest in our future. Major investments have immeasurably improved our province. Some examples are obvious -- our hospitals, universities and schools. And others, although less obvious also yield significant paybacks -- the Winnipeg Floodway, roads and bridges in northern and southern Manitoba, new water and sewage services, and so forth. As well, Manitoba has invested in public enterprise, including our hydro and telephone systems.

Canada has passed through a recession in which all governments' revenue growth was inadequate to protect public services, sustain our economy, maintain programs and meet the needs of people added to unemployment roles. One option for governments in response to the recession and revenue shortage was to reduce services -- in essence to choose short-term fiscal balance sheets ahead of people's increasing needs and in so doing add to unemployment, wasted human resources and suffering. Some chose that route.

Our course was different. We chose to protect services, to create jobs, to help agriculture and to support the economy. In Manitoba our economy strengthened and a high rate of job creation has been achieved. At the same time, our Province's share of the debt of all provinces as reported by the Bank of Montreal, actually declined from over 6% in the late 1970s to under 5% in 1985. In other words, our policies of putting jobs, the economy, services and people first is now achieving better fiscal results than those of jurisdictions which made fiscal results their primary short-term priority.

Nonetheless, there are interest costs to be met. And dollars paid in interest are not available to fund public services. Our Government is committed to managing our fiscal position so that resources continue to be available to improve further the economic and social vitality of the Province.

Each year, public debt costs are affected by interest rates, exchange rates and the need for both new borrowing and refinancing. The combined effects of these factors lead us to budget for $438.2 million in public debt payments this year, including close to $50 million resulting from foreign currency appreciation over the last year.

The Energy Rate Stabilization Program

I would now like to turn to the matter of fair electrical energy prices in Manitoba.

In 1979, the former Conservative government imposed a rate freeze on Manitoba Hydro and it approved the Energy Rate Stabilization Act, which provided that provincial taxpayers rather than electricity users would assume all foreign currency translation risk -- gains or losses -- associated with foreign borrowing for Manitoba Hydro.

This policy has had some very negative financial consequences.

In contrast to the former government's hope that this policy would permit Manitoba Hydro "to rebuild its reserves to a more appropriate level," losses totalling $64 million were incurred and Hydro's reserves were cut almost in half. Faced with this deterioration of Manitoba Hydro's reserves, in 1983 our Government was forced to end the rate freeze in order to protect the financial viability of Manitoba Hydro. With subsequent moderate rate increases, Hydro's reserve levels have slowly increased and the financial base of Manitoba Hydro has been strengthened.

The Energy Rate Stabilization Program has also resulted in considerable cost. Since its implementation, the net cash cost to the Government has amounted to some $203 million.

This inappropriate policy cannot be allowed to continue. The Energy Rate Stabilization Program will therefore be amended. Responsibility for any translation gains or losses on all U.S. denominated debt and all new foreign borrowings for Hydro purposes transacted on or after April 1, 1987 will be assumed by Manitoba Hydro. The provincial taxpayer will retain responsibility for existing foreign debt denominated in other than U.S. currency.

To assist Manitoba Hydro in adjusting to these changes, and also in response to requests from the City of Winnipeg, I am announcing a 24% reduction in provincial water power rental rates from $11.75 to $8.96 per horsepower-year effective April 1, 1987. A special one-time 4.7% increase in Hydro rates effective April 1, 1987 will be required to maintain Manitoba Hydro's current financial position.

For the typical Manitoba Hydro residential customer this will mean a monthly increase of about $1.46, based on a monthly consumption of 700 kilowatt-hours from $31.11 to $32.57.

Energy Rate Stabilization costs for 1987/88 will be reduced by $36.7 million. Water power rental revenue will also be reduced.

The changes will improve Winnipeg Hydro's profit position by more than $1.5 million this year, providing greater flexibility for the City of Winnipeg's 1987 property tax decisions.

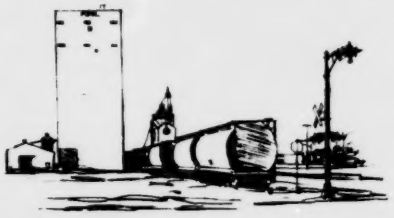
Manitoba will still have electrical rates among the lowest in Canada and the United States.

FEDERAL-PROVINCIAL CO-OPERATION

Canada needs a strong national government which acts in the best interests of all Canadians. That includes protecting the interests of smaller provinces who cannot make their voices heard in Ottawa. It includes ensuring that development is encouraged in all regions, not just in central Canada. And it includes maintaining fair federal funding for vital services.

Along with most Canadians, Manitobans were hopeful that the election of the federal Conservatives in 1984 would herald a new era of fairness and a new era of federal-provincial co-operation. Those hopes have not yet been fulfilled.

The federal decision on the CF-18 contract involving $1.4 billion and over 7,000 person-years of employment, was particularly disappointing for Manitoba. That decision is also costing Canadian taxpayers at least $30 million more than necessary.



The Conservative government's decision to limit federal health and higher education funding to 2% less than growth in the economy, following earlier Liberal reductions, disappointed many Canadians. We believe the expanding health care needs of an ageing population must be met.

This year federal cash support for health and higher education is to increase by $13 million while health requirements alone are increasing $118 million.

Equalization support to Manitoba is to drop to $469 million from the $511 million budgeted and the latest estimate of $506 million for 1986/87, despite increasing need as measured under the equalization formula. In the past, the federal government has acted to maintain fiscal stability and cash flow to provinces under the program. Last week measures were announced to protect Quebec and the Atlantic provinces from reductions due to 1986 Census population adjustments. Manitoba is seeking fairness and equity in federal treatment of all provinces. In the light of our increasing need, we have requested that, at a minimum, our equalization support be maintained at 1986/87 levels.

Manitoba has consistently called on the federal government to honour its 1984 election commitments and to restore fair funding to help protect vital services for all Canadians, especially in the equalization-recipient provinces of Canada. We encourage the Opposition parties to join us in standing up for the interests of Manitoba.

RAISING REVENUE TO PROVIDE SERVICES TO MANITOBANS

New Democrats understand that fair taxes are crucial to continuing our country's progress. We believe that every Canadian -- rich or poor -- should be guaranteed the most fundamental elements of a life with dignity.

Some Conservatives and Liberals tell Canadians that we cannot "afford" essential social programs; that we are "living beyond our means," that "belts must be tightened," and that "hard decisions" must be made.

The major reason our taxes and programs are under pressure is that some individuals and companies are getting much more from Canadian governments, and paying much less.

- Through the 1970s and into the 1980s the federal Liberals dramatically increased the level of spending on business subsidies and grants. The Conservatives added some and failed to remove others, with the result that these expenditures grew almost five times as fast as federal support for social programs between 1970 and 1985.

- The Liberals reduced income tax rates in the higher-income brackets. The federal income tax reduction for lower- and moderate-income Canadians was reduced, and under the Conservatives wiped out completely. Federal sales and fuel taxes were greatly increased.

- The half-million dollar Capital Gains Exemption and RRSP increases to subsidize $60,000 pensions, comprise another $2 billion in annual tax breaks.

The cumulative effect of these measures has been a dramatic shift in the tax burden -- from high-income, wealthy corporate shareholders, to ordinary working Canadians. The tax reductions for corporations have been heavily concentrated among large businesses.

Canadians, with good reason, no longer believe the tax system is fair. And ordinary Canadians are being asked to pay the price in higher taxes and reduced services.

When our Government first took office, we were alone in calling for balanced spending priorities and for fair and comprehensive tax reform. Now other provinces have joined us, and the federal government has promised a major overhaul of the Canadian tax system.

However, we cannot put the needs of Manitobans on hold pending the outcome of federal tax reform or fairer transfer payments.

Normal growth in our own source revenue cannot offset the decline in federal transfers and still provide sufficient revenue to meet our requirements for agriculture, health, education, and social services.

In considering the revenue measures for the 1987 Manitoba Budget Address, our Government adhered to one central principle:

The changes had to be fair.

The package of revenue measures I will present tonight is fair and balanced.

There are tax reductions for lower- and moderate-income people.

There are tax reductions for small businesses.

There are special tax reductions for farmers.

The tax increases are solidly based on the ability to pay principle. The new revenue measures strive to secure a fairer share from the individuals and big businesses who have benefited the most from tax policy at the national level over the last several years.

Personal Taxes

The Personal Income Tax is the single most important source of revenue for both the federal and most provincial governments. In principle, income taxes are directly related to ability to pay and should be the fairest form of taxation. In practice this is far from true.

The personal income tax system has become riddled with preferences for some forms of income, incentives, deductions, exemptions, exclusions, and loopholes. The tax reductions introduced in recent federal Budgets were concentrated in the highest income groups, while tax increases were concentrated among lower- and middle-income Canadians.

Since Manitoba's income tax is a percentage of federal income tax, the provincial income tax shares all the inequities and abuses which Liberal federal governments introduced, and federal Conservatives have added to, or failed to correct. These considerations led our Government to conclude that simply increasing the Manitoba income tax rate would not be fair.

In the interests of greater fairness, we are proposing to by-pass as many of these preferences as possible by applying an income tax directly against net income.

The tax will take effect July 1, 1987 at a 2% rate. Since the tax will only apply for the last half of 1987, the effective rate for 1987 will be 1%.

To further improve the fairness of the tax, a major new Manitoba Tax Reduction related to family size and income will be introduced. It will affect both the Net Income Tax and regular Manitoba income tax. This measure will:

- reduce Manitoba personal income taxes for approximately 100,000 low- and moderate-income Manitobans including virtually all those with incomes under $10,000;

- eliminate Manitoba income taxes altogether for 15,000 lower-income people.

The tax on net income will apply at a reduced rate for most middle-income Manitobans. In 1987 --

- A single wage earner with income under $11,400 will pay lower income taxes and would not pay the full Net Income Tax until earnings exceeded $22,400.

- A Manitoba farmer working hard to support a family of four will pay lower taxes on income up to $22,500. The farmer would not pay the full Net Income Tax until income exceeded $45,300.

- A working couple earning equal incomes and supporting two children will pay lower combined provincial income taxes on income under $25,100. If their children are in daycare, taxes will be lower on earnings up to $29,200, and the full Net Income Tax would not be payable until family-earned income exceeded $54,000.

- A senior citizen with income less than $17,300 will have Manitoba income tax reductions, and would not pay the full Net Income Tax until income exceeded $34,200.

- A senior citizen couple will pay lower Manitoba income taxes if their combined income is under $22,200. The full Net Income Tax would not take effect until their income exceeded $40,900.

The new tax will apply to all net income including some income which now enjoys significant tax preferences. Most importantly, it will apply to capital gains which are now tax-free as a result of the $500,000 lifetime capital gains exemption introduced in the 1985 federal Budget.

Since 1982, a surtax has been levied on higher-income individuals. For the 1988 taxation year this surtax will be replaced by a surtax levied on the Net Income Tax. The new surtax will generate approximately the same revenue as the present surtax, but people who receive their income from employment will pay a smaller share. No one with net income of less than $30,000 will pay the surtax.

I would like to express appreciation to the federal Finance Minister who has agreed to the administration of these measures for the 1987 and 1988 taxation years.

The Net Income Tax will be administered by Revenue Canada, and will increase revenue by $83.7 million for the 1987/88 fiscal year.

I am also announcing an important reform of Manitoba's land transfer charges, effective May 15, 1987. The new system will consist of a flat fee and a progressive Land Transfer Tax based on the value of the property. The new system will:

- redress the inequity under the present system which taxes land transfers with a mortgage at almost double the amount for transfers without a mortgage;
- reduce taxes for lower-priced homes and leave the taxes for average-priced homes about the same;
- apply significantly higher taxes to large property transfers;
- virtually eliminate the charges on farm property transfers.

The new Land Transfer Tax and fee changes will increase revenue by $9.7 million.

Effective May 4, 1987, the sales tax and Revenue Act 1964 rates will increase to 7%. The sales tax base will also be broadened to include cigarettes, cigars, and other tobacco products, computer applications software, prepared take-out foods over $6.00, insulation materials, and some energy-saving devices. The sales tax measures will increase 1987/88 revenue by $102 million.

To ensure the impact of these revenue measures is fair, the Cost of Living Tax Credit for 1987 will be increased from 3% to 4% of personal exemptions. This change will mean increased tax credits of:

- $42 for single people with incomes up to $13,680;
- $95 for couples with two children, and with income up to $29,450;
- $84 for single parents with two children with earnings of up to $26,230;
- $68 for single seniors with incomes up to $20,580.

Cost of Living Tax Credit increases will be phased out gradually for people with incomes above these levels. As a result, it is estimated that 293,000 Manitobans will receive $23.1 million more

in 1987 Cost of Living Tax Credits. Of these, an estimated 74,000 are senior citizens and 29,000 report farm income for taxation purposes.

Business Taxes

The erosion in corporation income taxes is a matter of ongoing concern for all Canadians. Corporation income tax revenue has not increased in line with growth in corporate profits.

Manitoba's corporation income tax revenue has been subject to similar unfair erosion. We believe action is urgently required to secure a more reasonable contribution from big business toward protecting public services.

A Corporation Capital Tax surcharge of 0.2% will be applied on corporations with more than $10,000,000 in taxable paid-up capital. The change will affect about 900 of the largest corporations operating in Manitoba. The Corporation Capital Tax rate applied to trust and loan companies will be equalized with the 3.0% rate applied to banks. These measures will take effect on July 1, 1987 and increase revenue by $14.6 million. These taxes are deductible for income tax purposes.

I am also pleased to announce that the exemption for small businesses under the Levy for Health and Post-Secondary Education will be doubled from $50,000 to $100,000. Employers with total payrolls of under $150,000 will have their Levy liabilities reduced through a phase-in provision. As a result over 3,700 employers will be removed from the Levy rolls. Some 1,800 will pay less than the full rate.

The Levy for Health and Post-Secondary Education will be increased from 1.5% to 2.25% effective April 1, 1987. In total, only 8,400 employers will make any contribution through the Levy for Health and Post-Secondary Education. Only the largest 6,600 will pay the full rate. These adjustments will increase 1987/88 revenue by $52.8 million.

There will be no increases in gasoline taxes. The general diesel fuel tax rate will be increased by 0.7 cents per litre to 9.9 cents per litre. Dyed fuel used by farmers will

continue to be exempt from all fuel taxes. The rate applied to railway locomotive fuel will be increased to 13.6 cents per litre, the same as in Saskatchewan. Most other fuels taxed under the Motive Fuel Tax Act will increase in line with the general rate increase.

The changes are effective April 1, 1987 and will increase revenue by $10.8 million in 1987/88.

Effective midnight April 12, 1987 tobacco taxes will be increased by 0.5 cents per cigarette raising $5.5 million. Liquor Commission prices will be adjusted to increase revenue by $5.0 million in 1987/88.

....

To summarize, the changes announced in this Budget are moderate, fair and balanced. With the special tax reductions for farmers and extended school tax assistance, these measures provide personal tax reductions for about 156,000, or 36% of Manitoba households. The increases are necessary to protect vital programs and to provide additional support in priority areas.

- They begin to address the growing imbalance between personal and corporate taxes and between large and small businesses.
- They reduce taxes for lower-income Manitobans.
- They are progressive and equitable among taxpayers with incomes from different sources.

They are not a substitute for national tax reform but they are fair, and they are based on the ability to pay principle.

Detailed information on the revenue measures is included in Budget Paper D on **Taxation Adjustments.** The Paper also describes the impact of these changes on Manitoba households and taxpayers.

STRENGTHENING FISCAL MANAGEMENT AND ACCOUNTABILITY

Our New Democratic Government places great value on improving fiscal management and accountability -- it is an integral component of our overall objective of balanced social and economic development. This year a number of initiatives are being implemented.

A new Planning and Priorities Committee of Cabinet will add further perspectives to our Government's review of the whole policy spectrum. The integration of economic and social policies will continue to be a hallmark of this Government.

Treasury Board will be strengthened to ensure that government expenditure yields the greatest value for tax dollars.

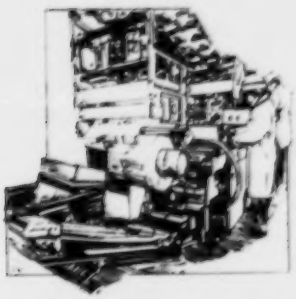
A new Cabinet Committee on Crown Reform will improve the fiscal management and accountability of Crown Corporations and Agencies.

To further improve financial accountability we recognize the need for better information which can be more widely understood and reviewed. To that end, a number of initiatives are being introduced to present the financial position of the Government in a manner which will encourage more informed review by the public, the Provincial Auditor and Members of the Legislative Assembly.

Both total budgetary requirements and the Government's net operating position will be displayed distinctly in the Budget, each shedding light on a different facet of the Government's financial position.

To estimate more accurately the Government's year-end financial position and to provide an improved basis for assessment, provisions for Crown Corporation losses as well as anticipated year-end savings resulting from unspent funds will be made in the Province's Budget. Beginning with losses incurred in 1987/88, Crown investment losses will be incorporated into government expenditure and the Public Accounts in the fiscal year immediately following the year in which they are incurred. The allowance for year-end savings will be included in the 1987/88 Budgetary Expenditure Estimate.

The Manitoba Jobs Fund has been an important Government tool in helping our economy create jobs for Manitobans. The 1987/88 Estimates have been expanded to describe more fully the activities undertaken in several key sectors including natural resources, technology, business development, human resources, infrastructure and administration/communications.



We will continue our efforts to improve the level of information provided to Members of the Legislative Assembly. The provision of Estimates Supplements, introduced as a pilot project three years ago to enhance information on departmental programs and operations, will be provided this year for every line department in the Government. As well, all line departments will be required to provide annual reports to the Legislature.

The Fiscal Plan

This Budget proposes total expenditure of $4.188 billion up 8.2% from the 1986 Budget. Expenditure, excluding the $116 million increase in public debt costs, is up by $202 million or 5.7%. Revenue is projected at $3.773 billion, up 11.6% from the 1986 Budget. As a result, the shortfall between total revenue and total budgetary expenditure, known as the net budgetary requirement, will be $415 million, $74 million or 15.1% lower than last year.

NET BUDGETARY REQUIREMENT

1986/87 Budget	1986/87 Projected*		1987/88 Budget	Difference from 1986/87 Budget	Difference from 1986/87 Projected
($ millions)			($ millions)	(%)	
3,870	3,941	Budgetary Expenditure	4,188	8.2	6.3
3,380	3,374	Budgetary Revenue	3,773	11.6	11.8
489	567	Net Budgetary Requirement	415	<15.1>	<26.7>

*Third Quarter Financial Report

Tonight I am tabling with the Budget, the Third Quarter Financial Report for 1986/87. The Report projects a modest $20 million improvement to $567 million, in the Net Budgetary Requirement from the Second Quarter Report. The Third Quarter projections show expenditure of $3.941 billion, and revenue of $3.374 billion.

The fiscal plan for 1987/88 proposes a 6.3% increase in expenditure, an 11.8% increase in revenue and a 26.7% drop in net budgetary requirement from the 1986/87 Third Quarter interim projections.

The significant reduction in the net budgetary requirement provided in the fiscal plan means borrowing will be less than the level which would otherwise be necessary. As well, the fiscal plan provides a higher revenue base which will provide a stronger fiscal foundation for the future.

Net Operating Position

The Expenditure Estimates contain provision for $257 million of capital expenditure. This expenditure creates assets and provides benefits for many years. Although they are a part of our net budgetary requirement, they must be viewed separately in assessing the current operating cost of Government.

Capital expenditure will include:

° Health Care Facilities	$ 36 million
° Education	$ 26 million
° Rural and Agricultural Infrastructure	$ 11 million
° Highways	$ 99 million
° Direct Local Government Assistance	$ 14 million
° Economic and Resource Development	$ 30 million

The Net Operating Position which recognizes that a portion of the Province's net budgetary requirement supports capital projects, provides additional information which portrays more accurately the relationship of the Government's revenue to its requirements for day-to-day operations.

NET OPERATING POSITION

1986/87 Budget	1986/87 Projected*		1987/88 Budget	Difference from 1986/87 Budget	Difference from 1986/87 Projected
($ millions)			($ millions)	(%)	
489	567	Net Budgetary Requirement	415	<15.1>	<26.7>
266	248	Less Capital Expenditure	257	<3.4>	3.6
224	319	Net Operating Requirement	158	<29.5>	<50.3>

*Third Quarter Financial Report

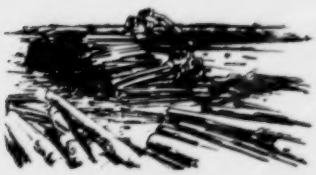
The Net Operating Requirement for 1987/88 will be $158 million, down $66 million or 29.5% from the 1986 Budget. The Operating Requirement will be down by one-half of that projected in the Third Quarter Report for 1986/87. This reflects the progress made in reducing current operating requirements.

NON-BUDGETARY REQUIREMENTS

Our Government plans a non-budgetary capital investment program of $948.1 million for 1987/88, about $54 million over 1986/87. This will be financed with $201.8 million of internally generated funds, $511.8 million in capital authority voted in previous years and $234.5 million in incremental capital authority in this year's Loan Act.

The total Non-Budgetary Capital Program includes $80 million for the Manitoba Hospital Capital Financing Authority to provide financing of capital expenditure already incurred by various health facilities.

The $948 million Non-Budgetary Capital Investment Program includes $391 million for Manitoba Hydro of which $255 million is for Limestone; $165 million for Manitoba Telephone System; $138 million for Manitoba Housing and Renewal Corporation; $84 million for Manitoba Agricultural Credit Corporation; and $54 million for the Manitoba Jobs Fund.



Tonight I am pleased to announce the introduction of **Manitoba Investment Savings Certificates.** These certificates will give Manitobans a new opportunity to invest in our province and its future. It is another way we can join together in building a stronger Manitoba.

Manitoba Investment Savings Certificates will be offered annually through caisses populaires, credit unions, chartered banks, investment dealers and trust companies.

The total borrowing requirement for 1987/88 amounts to $1.56 billion, only slightly higher than last year's borrowing requirement of $1.43 billion. The total includes net budgetary cash requirement, non-budgetary requirement and refinancing of debt issues maturing during the year. The Canada Pension Plan and other off-market sources will provide about $140 million with the remaining $1.42 billion to be raised through public bond markets, at least 50% of which is expected to be in Canadian dollar markets.

CONCLUSION

Fairness.

Compassion.

Building for the future.

That is what this Budget is all about.

Over the last five years Manitobans, together have worked hard to rebuild our province. Tens of thousands of Manitobans have benefited from new job opportunities. We all have benefited from the economic revitalization.

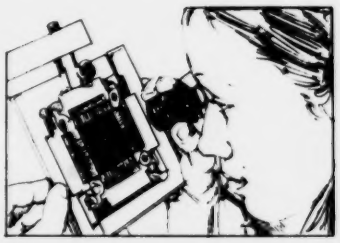
This Budget lays down a solid foundation for the future -- programs to build our economic and human resources -- to make our province even stronger.

This Budget assists farmers:

- with $85 million of budgetary resources, a 20% increase for the Department of Agriculture, including $12 million in special Farm School Tax Assistance;
- with $84 million in financial support from the Manitoba Agricultural Credit Corporation, including $29 million for a new interest rate buy-down;
- with tax credits, tax exemptions and other programs to improve the viability of farms and farm communities in Manitoba.

This Budget provides Personal Income Tax reductions to more than 100,000 Manitobans.

This Budget eliminates the Levy for Health and Post-Secondary Education for an additional 3,700 small business employers.



This Budget raises needed revenue fairly, in accord with ability to pay.

This Budget protects our vital health, education and social services with $209 million in new funding.

This Budget expands our initiatives in areas such as child care for families and home care for seniors.

This Budget provides new opportunities for Manitobans to invest in our province.

This Budget puts the economic and social health of our province first, while securing some reduction in deficits from the recession-induced levels of previous years.

This Budget promises continued progress.

We will measure our progress not by the simple totalling of balance sheets alone, but by improvements in our communities, and in the quality of our lives and through continued advances in fairness and equity for all.

We face many challenges -- challenges I know Manitobans are prepared to meet. Together, we will achieve further economic and social progress and enhance the quality of life of Manitobans throughout our province.

SUPPLEMENTARY BUDGET PAPERS

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Paper A:
ECONOMIC REVIEW

Paper B:
FINANCIAL STATISTICS

Paper C:
PEOPLE AND PROGRAMS:
SERVICES TO MANITOBANS

Paper D:
TAXATION ADJUSTMENTS AND
BACKGROUND INFORMATION

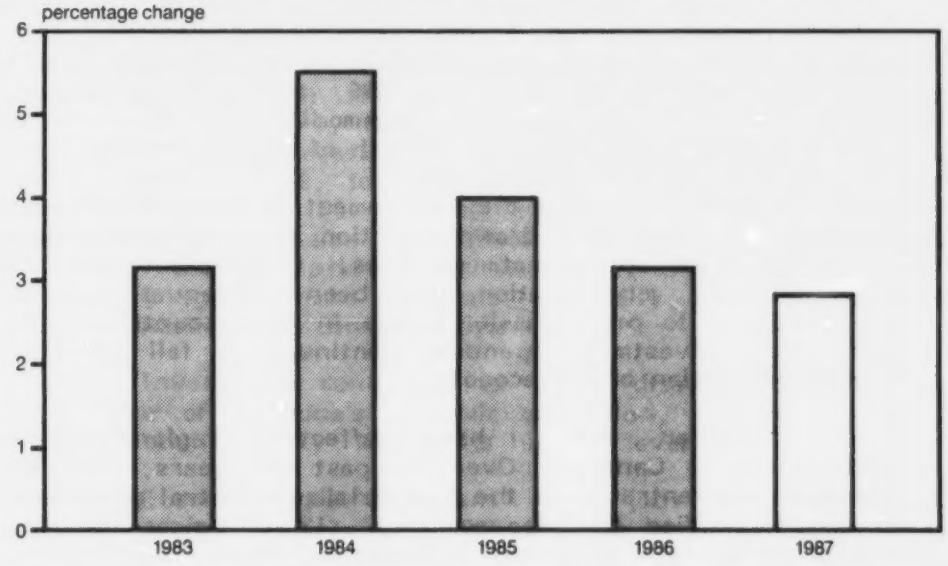
Paper E:
FEDERAL-PROVINCIAL RELATIONS
AND TAX REFORM

ECONOMIC REVIEW

CANADIAN CONTEXT

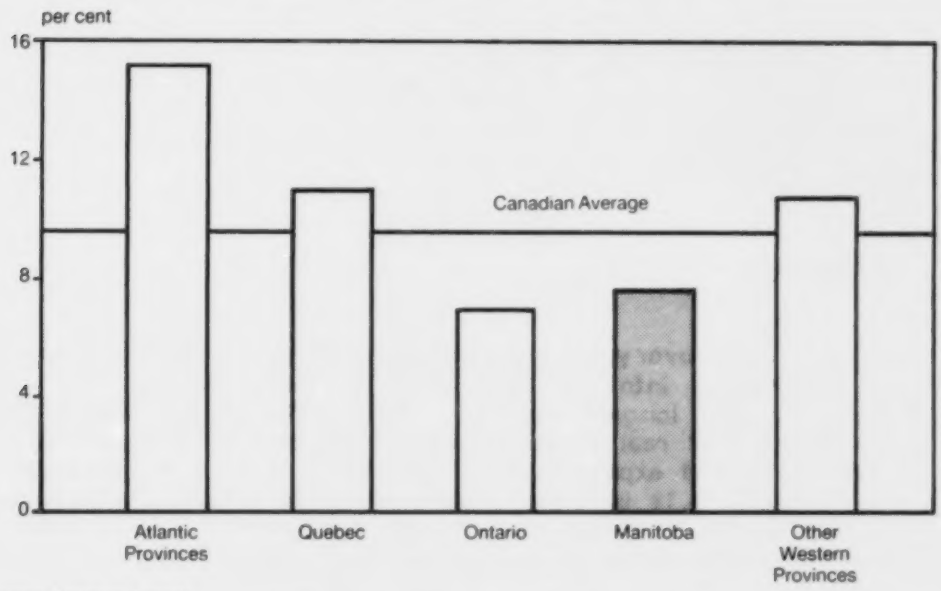
Recovery from the most severe recession since the 1930s is continuing into its fifth year in 1987, making the current expansion the longest since the 1960s. The recent federal Budget predicted that real Gross Domestic Product (GDP) in the Canadian economy would expand by 2.8% in 1987. Real GDP increased 4.0% in 1985 and 3.1% in 1986. Consumer price inflation is expected to remain in the 4% range for a fourth consecutive year. Short-term interest rates have moderated to their lowest levels in nearly a decade.

Real Gross Domestic Product, Canada, 1983 to 1987



Source: Statistics Canada and Federal Department of Finance

Unemployment Rates by Region, 1986



Source: Statistics Canada

Despite the prospect of continued economic improvement, growth remains uneven across sectors and regions, and the process of job creation and absorption of unused plant capacity in Canada remains incomplete. In 1986, the collapse of world oil prices and weakness in other commodity and resource prices contributed to the slowdown in growth of Canadian GDP.

Internationally, the realignment of currency values over the past 18 months has drawn attention to substantial imbalances in foreign trade and investment flows. Government deficits have persisted and job creation has been inadequate to reduce unemployment to pre-recession levels in most countries. At the same time, investment spending continues to fall short of its former proportion of the economy.

Similar forces have affected regional economic performance in Canada. Over the past two years, most growth has been concentrated in the industrialized central provinces and in the diversified Manitoba economy. Lower prices for resource products, along with sharp cutbacks in energy exploration and development, have contributed to lower growth in both Atlantic Canada and the provinces west of Manitoba. In both regions,

capital investment spending declined in 1986. In Alberta, the decline in resource earnings reduced aggregate incomes by considerably more than the decline in the volume of total output.

The divergence in regional performance is also reflected in greater disparities in unemployment rates among regions. Quebec, Ontario and Manitoba had lower unemployment rates in 1986 than in 1982, but rates were higher in all seven other provinces. As well, interprovincial population migration patterns have shifted markedly in the 1980s. Ontario experienced substantial net losses to other provinces from 1979 to 1981; however, by 1985, it was the only province to gain population through interprovincial migration. In 1986, Ontario continued to be the only gaining province, except for a small increase reported in British Columbia.

DEVELOPMENTS IN MANITOBA

Manitoba's economic performance has surpassed the national average over the past several years across a broad spectrum of indicators, ranging from output and investment to employment and incomes. In 1986, Gross Provincial Product (GPP) increased 5.3%, to $19.3 billion. In real terms, output increased by about 3.5%. Overall inflation in Manitoba increased at a rate somewhat below the national average, as sharp declines in world market prices for important Manitoba exports, particularly grains and minerals, partially offset continuing moderate increases in consumer prices.

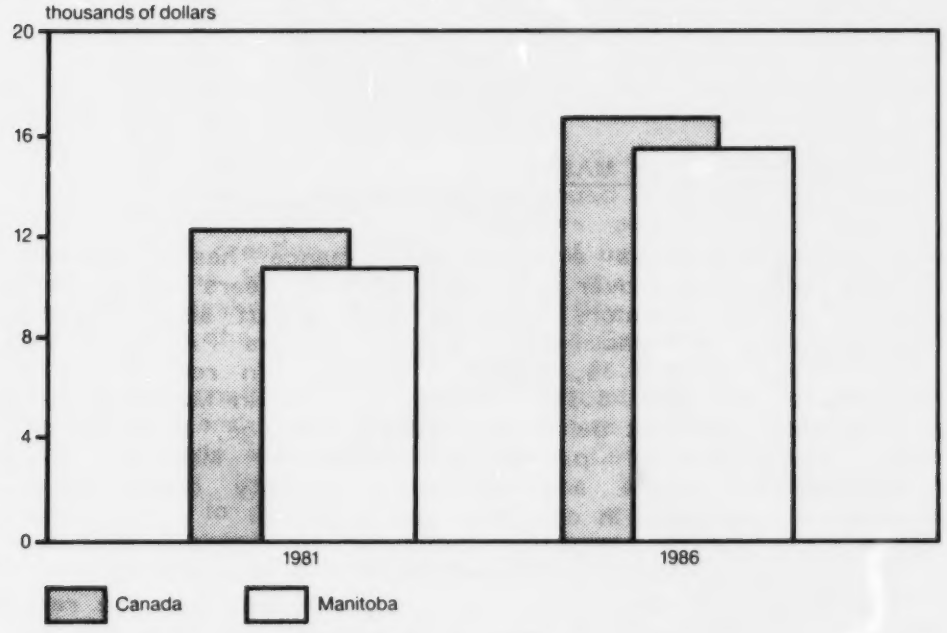
Investment continued to be a driving force in the fourth year of Manitoba's economic expansion, and the real level of construction activity reached its highest level in a decade.

Economic growth means more jobs for Manitobans. Employment growth of 2.7% in 1986 was the strongest since 1974. Job creation gained momentum in the latter half of the year, and employment in January, 1987 surpassed the one-half million mark for the first time.

Better economic performance in Manitoba has narrowed the gap with the national standard. In addition to job creation, the broadest measure of this improvement is GPP per person which increased from 90% of the national average in 1981 to 94% in 1986. Personal income per capita rose by $4,885, or 44.9% over this period, to $15,760 in 1986 and also rose from 90% to 94% of the national per capita average. The gap remains significant, however, more than $1,000 per Manitoban.

These gaps between Manitoba and the national average in GPP and in personal income mean that Manitoba's capacity to raise revenue is lower than the national average. Continued low prices for agriculture and other resource products, and weaker markets for some sectors such as manufacturing, mean that the prospects of closing the gap further are less promising over the next few years.

Personal Income per Capita, 1981 and 1986

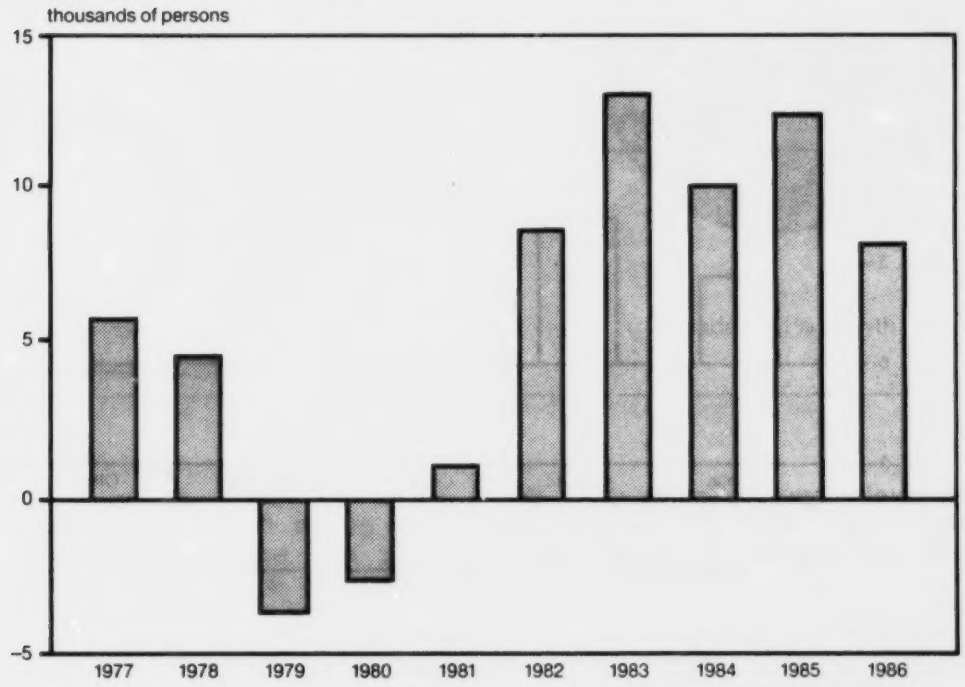


Source: Statistics Canada and Manitoba Department of Finance

Population and Jobs

Between 1981 and 1986, the population of Manitoba increased by 52,400, to 1,078,600, a marked improvement from the 7,100 loss which occurred between 1978 and 1980, and the strongest growth since the early 1960s.

Population Change, 1977 to 1986



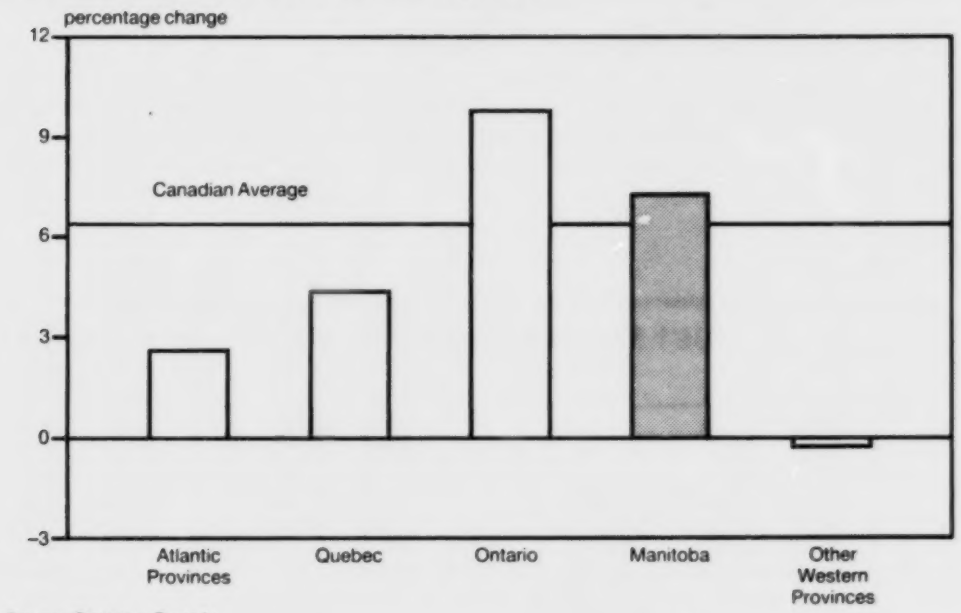
Source: Statistics Canada, June 1st estimates

There were 13,000 more jobs in Manitoba last year, an increase of 2.7%, to an average of 493,000. This represents the largest number of new jobs and the strongest rate of employment growth since 1974.

Compared to the pre-recession peak in 1981, Manitoba has the second strongest job creation record among provinces. At the end of 1986, employment was 7.8% higher in Manitoba compared with 6.1% in Canada. In three provinces, there were

fewer jobs than in 1981, prior to the recession. In addition, a greater proportion of Manitoba's employment gain was in full-time jobs, 57%, compared with 45% at the national level.

Job Creation by Region
Pre-Recession Peak to December, 1986

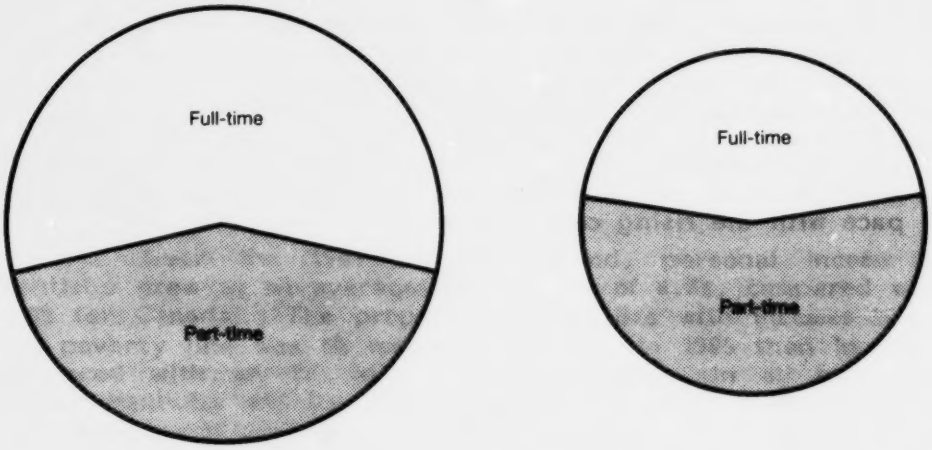


Source: Statistics Canada

In 1986, as in the 1981 to 1986 period, the private sector accounted for all of the net job creation in the province. More people were working for wages or salaries and there were more employers in the province as well.

Two thousand fewer Manitobans were unemployed in 1986, reducing unemployment to its lowest level in five years. The unemployment rate declined from 8.1% in 1985, to 7.7% in 1986, well below the national rate of 9.6%, and for the fourth successive year, the second lowest among provinces. On average, the unemployed in Manitoba now find work in less than four months, an improvement from nearly five months of job search required in 1983. In Canada, the average duration of unemployment remains close to five months.

Full-time and Part-time Job Creation,
Pre-Recession Peak to December, 1986



Manitoba – 7.8% growth

Canada – 6.1% growth

Source: Statistics Canada and Manitoba Finance

In 1986, the lower levels and rates of unemployment were concentrated among women and youth. At 12.3%, the youth unemployment rate was second lowest among provinces for the second year in a row and well below the national average of 15.2%.

The labour market outlook for 1987 is for continued employment growth of about 2%. Manitoba's unemployment rate is expected to continue to decline and maintain its position as one of the lowest among provinces and well below the Canadian average.

Labour unions represent approximately 150,000 Manitobans, or 37% of the paid, non-agricultural labour force. Good industrial relations exist between workers and employers. Between 1982 and 1986, Manitoba and Prince Edward Island reported the lowest rate of person-days lost to strikes and lockouts among provinces. The time lost due to work stoppages relative to the number of employees in Manitoba was less than one-fifth that of the rest of Canada over this period.

Manitoba's minimum wage will increase from $4.30 per hour to $4.50 per hour on April 1, 1987, and to $4.70 per hour on September 1. As well, the youth differential for workers under the age of 18 will be eliminated by April 1, 1988. These increases are designed to enable minimum wage earners to cope with increased living costs and eliminate unjustified age discrimination. Currently, the minimum wage ranks fifth highest in Canada and, if there are no changes in other jurisdictions by September 1, it will rank second only to the Northwest Territories. Periodic increases in the minimum wage encourage productive participation in the economy, and help forestall the spread of poverty which has been evident in many areas of North America where adjustments have not occurred or have not kept pace with the rising cost of living.

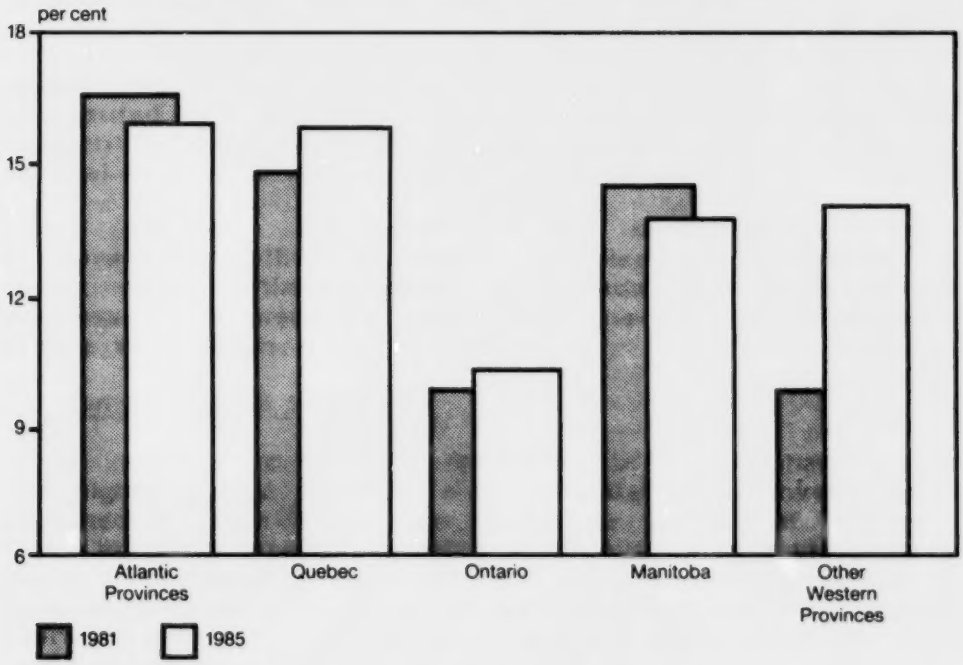
Incomes and Prices

In 1986, personal income increased 6.2% to $17.0 billion, and personal disposable income 4.4% to $14.2 billion. Personal income in Canada increased 6.9% in 1986. Although most components of personal income grew more rapidly in Manitoba than in Canada, the sharp decline in net farm income lowered overall personal income growth below the national average. More jobs and more full-time work resulted in a 7.4% increase in labour income, to $10.1 billion, while a 5.7% increase was recorded for Canada. Reductions in farm inventories and lower grain prices contributed to an estimated one-quarter billion dollar reduction in net farm income in 1986.

Over the 1981 to 1986 period, personal income in Manitoba grew at an average annual rate of 8.8%, compared with 8.0% for Canada. The proportion of families with incomes below the poverty line was 5% lower in Manitoba in 1985 than in 1981, compared with an 11% increase for Canada. In all provinces except Manitoba and the Maritimes, poverty rates were higher in 1985 than in 1981.

Poverty Rates by Region, 1981 and 1985

Proportion of Families with Incomes Below the Poverty Line



Source: National Council of Welfare

Moderate living costs in Manitoba help families on limited incomes maintain acceptable standards of living. For example, in January, 1987, the weekly cost of a nutritious food basket for a family of four in Winnipeg was estimated by Agriculture Canada at $94.52, the lowest among the 18 cities included in the survey, and representing savings of more than $600 annually compared with the national average.

In 1987, modest acceleration in personal income growth is expected largely because the projected further decline in net farm income is much smaller than in 1986 and will be less of a drag on overall income growth.

Inflation remained moderate in 1986, with the Consumer Price Index for Winnipeg increasing 4.5%. Inflation was led by price increases in food, tobacco and alcohol, recreation, education and reading materials which offset a modest decline in energy costs.

Incomes received by many producers have shown smaller increases than consumer prices. The Industry Product Price Index for all manufacturing industries in Canada increased only 0.8% during 1986. The Raw Materials Price Index for primary products declined 17.7% in 1986, as the sharp decline in mineral fuel prices and lower grain and vegetable product prices offset modest increases in other components. Since 1981, mineral fuel prices have declined 13.1%, while all other components have risen only 3.9%.

Business Conditions and Investment

While business conditions have varied considerably across Canada in the aftermath of the recent recession, in Manitoba there has been a steady increase in activity, particularly in relation to the national standard.

Small businesses, and the men and women who manage and work in them, have long been a cornerstone of the Manitoba economy and have played a major role in establishing Manitoba's better economic growth record. Not including farms, other resources and public administration, the number of establishments with fewer than 20 employees increased 19% between January 1984 and January 1987, to over 32,000. Major construction projects such as Limestone and North Portage Development have provided both direct and indirect spinoffs for many Manitoba-based industries.

Growing interest in the co-operative approach has led to an unprecedented rate of increase in the formation of new co-operatives. Some 150 new co-operative businesses were established in Manitoba over the last four years, representing investment of capital, job creation and a response to economic and social needs of citizens. Under the Employment Co-operative Program, announced a year and a half ago, 23 employment co-ops have been incorporated and others are in the development stages.

Business opportunities, private initiative and co-operation among business, labour and government have contributed to a rate of net business formation -- the difference between business starts and failures -- which has exceeded the national average in each of the last three years.

Women are increasingly demonstrating their entrepreneurial abilities in Manitoba, as elsewhere in Canada. A recent study estimated that, in Canada, two-thirds of all business starts were by women and one-half of all business owners were women.

Non-residential Investment

Since the recession, investment in Manitoba has risen to new higher levels. In 1987, non-residential capital investment is projected to reach $2.7 billion, a further increase of 4.0% from 1986, following growth averaging 13.5% over the previous three years. In Canada, non-residential investment is projected to increase 4.4% in 1987, however, between 1983 and 1986, growth averaged only 4.9%. Manitoba's investment performance has thus substantially exceeded the national average in recent years. As

well, relative to its recession low in 1983, the increase in the projected 1987 level of non-residential investment in Manitoba is second only to Ontario's, and contrasts sharply with lower projected levels in British Columbia, Alberta, Nova Scotia and Newfoundland.

Private sector investment, which includes both non-residential investment and most housing construction, is projected to exceed $2.3 billion in 1987 -- its second highest level of all time. Following a 17.2% increase in 1986, private investment in Manitoba is projected to decline by 7.3% in 1987. In 1987, as in 1986, Statistics Canada projects declines in private investment in five other provinces and a slowdown in growth at the national level from 9.4% to 2.6%.

Public sector investment has played a significant role in expanding the social and economic capital of the province. Over the 1985 to 1987 period, public sector investment has been the strongest of any province, having increased at an average annual rate of 11.5%, compared with less than 1% average annual growth nationally.

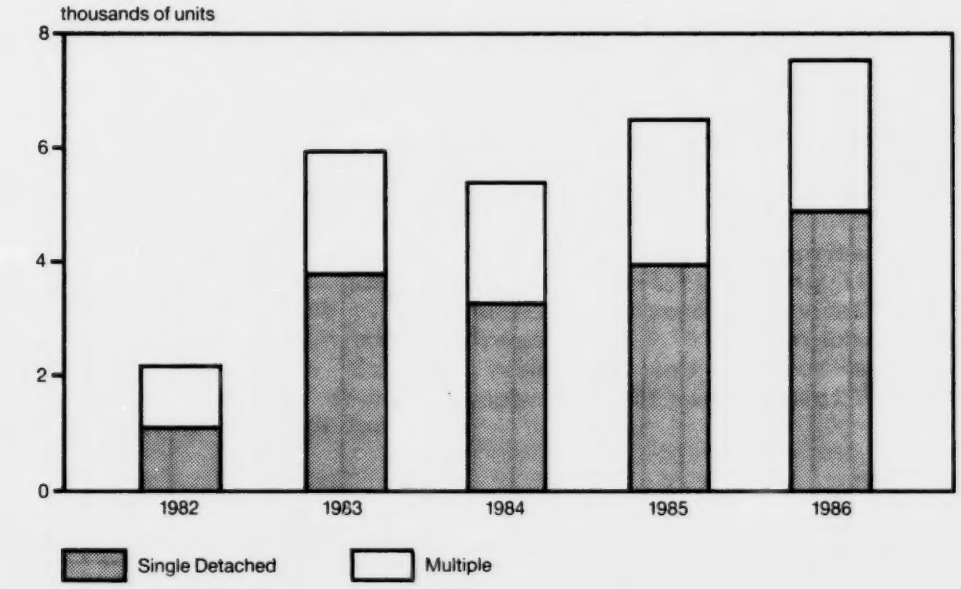
On a sectoral basis, the investment outlook for 1987 reflects a continuation of the broad trends which have evolved over the past several years. Increases in capital investment are projected in the utilities, metal fabricating, communications, government departments, trade and finance, and commercial sectors, in part, reflecting continued growth in projects such as Limestone and North Portage Development. Weak producer prices continue to dampen investment activity in the primary sector and among many manufacturing industries.

Housing

Residential construction increased sharply in 1985 and 1986. Healthy growth in employment, wages and salaries, and population, as well as lower interest rates, contributed to an increase in housing starts to an eight-year high of 7,699 units in 1986. The 4,791 single-unit housing starts in 1986 were the highest since 1974.

The affordability of single-family housing in Manitoba was highlighted in recent reports of a national survey by Royal LePage Ltd. which showed that a significantly greater proportion of houses were purchased by young people in Winnipeg than in other Canadian cities. As well, house prices in Winnipeg averaged $71,000 in 1986, compared with $75,000 in Edmonton, $120,000 in Vancouver and $126,000 in Toronto.

Housing Starts, 1982 to 1986



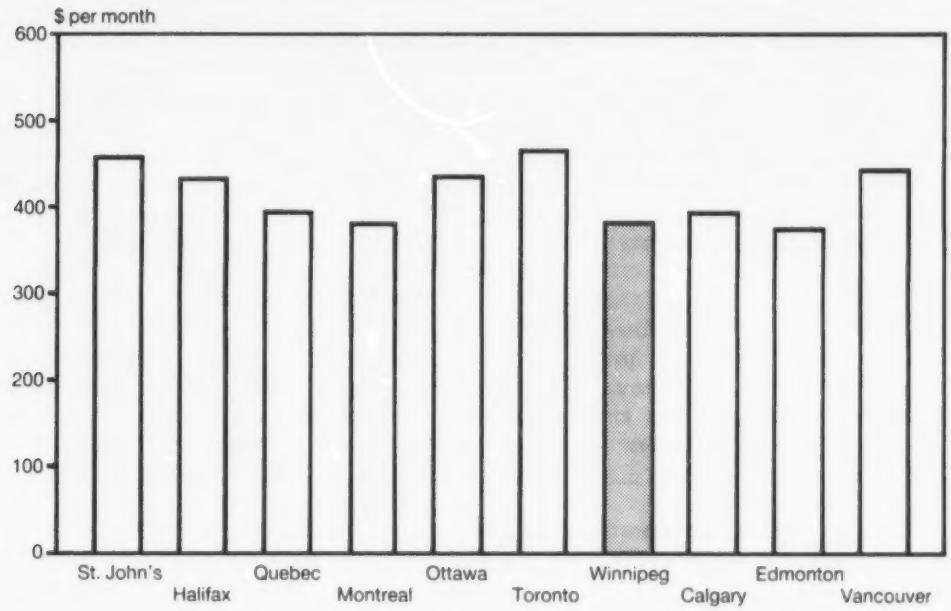
Source: Statistics Canada

The vacancy rate for apartments in Winnipeg increased to 1.6% in October, 1986, from 0.9% in October, 1985. The increase provides expanded choice for renters and reduced pressure on rents. The movement of renters into homeownership, and healthy new rental construction activity are continuing to improve the availability of quality rental housing in the province.

Approximately two-thirds of the multiple-unit housing starts in 1986 proceeded without public sector assistance, the highest proportion since the mid-1970s and indicative of strong investor confidence. Most publicly assisted starts were initiated under the RentalStart and non-profit family and senior housing programs. The Rural and Seniors' RentalStart programs will be continued in 1987, and multiple-unit starts are expected to be close to their 1986 levels.

The Co-operative HomeStart Program, which is financed by the Jobs Fund, has made a significant contribution to the provision of affordable quality housing. On a per capita basis, Manitoba is a leading province in the construction and development of co-operative housing.

Apartment Rents
One-Bedroom Units in Major Cities



Source: Canada Mortgage and Housing Corporation, October, 1986

Rental accommodations in Winnipeg continue to be among the most affordable in Canada. Renters of one-bedroom apartments in Winnipeg can expect to pay the third lowest rent among ten major Canadian cities -- that means, for example, savings of between $600 and $900 annually compared with renting similar accommodation in Halifax, Ottawa, St. John's, Vancouver or Toronto.

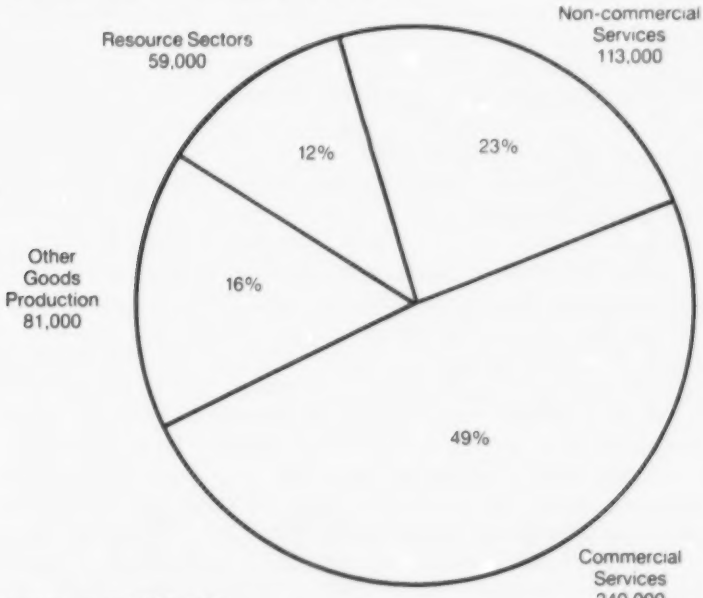
The recently started 376-unit residential complex in the Portage Place Housing project, which is being financed under the provincial RentalStart Program, was reported in the Canadata Construction Survey as one of Canada's ten largest construction starts in January, 1987. Current projections suggest that approximately 2,700 multiple and 4,500 single housing units will be started in 1987, although further reductions in interest rates could stimulate a greater number of starts. Statistics Canada projects that capital investment in housing will reach $966.6 million in 1987.

Sectoral Analysis

Manitoba's performance over the current business cycle owes much of its strength and stability to the structure of the economy. The direct contribution of the resource base to total output is 13%, compared with 24% in the rest of western Canada. Consequently, the resource price inflation of the mid- to late-1970s and the deflation in the 1980s did not affect Manitoba to the same extent as Alberta and Saskatchewan, for example. Nonetheless, Manitoba resource sectors have faced similar difficulties as their counterparts elsewhere.

In terms of employment, resource sectors comprise 12.0% of the economy; other goods production 16.4%, including 11.6% in manufacturing and 4.9% in construction; commercial services 48.6% and non-commercial services the remaining 23.0% in Manitoba. In the rest of Western Canada, resources and service sectors account for slightly higher proportions of employment, while manufacturing accounts for less.

Employment by Sector, 1986



Total Employment 493,000

Source: Statistics Canada and Manitoba Department of Finance

Agriculture

The weakened international grain market, resulting from global supply conditions and the trade subsidy war between the United States and the European Economic Community, has emerged as the most serious current concern in agriculture, undercutting export grain prices and severely reducing incomes for Canadian grain farmers.

The agricultural sector is more diversified in Manitoba than in the other prairie provinces. For this reason, the impact of depressed grain markets will be less pronounced in Manitoba; however, the legacy of high interest rates and input costs and the difficulties experienced by young beginning farmers, continue to affect Manitoba farming communities.

Provincial assistance to the agricultural sector has focussed on the short- and intermediate-term concerns of the farming community. Measures have included the following.

° Financial support is available through the lending authority of the **Manitoba Agricultural Credit Corporation** (MACC) including Interest Rate Relief Loans, Operating Loan Guarantees, young farmer rebates, the Part-Time Farmer, Comprehensive Refinancing and Direct Loans Programs. Loan, interest assistance and related activity over the past five years totalled $302.9 million.

° The recently announced **FarmStart Program** will ease the transfer of farms from one generation to the next by providing beginning farmers with low-cost mortgage credit and giving retiring farmers a secure income and a continued investment in agriculture.

° The **Manitoba Mediation Board** has begun to provide assistance to farmers in severe financial distress and to facilitate effective communication between farmers and their lending institutions.

° The performance and effectiveness of **stabilization programs** have been strengthened to protect farmers from severe declines in income due to volatile prices.

- The **Manitoba Beef Stabilization Plan** provided net support to producers of $6.5 million in 1986. Since its inception in 1982, the Plan has provided $58.6 million in assistance, including $13.1 million in productivity enhancement grants, $40.3 million in net support payments and $5.2 million in interest on provincial loans.

- The **National Tripartite Hog Plan** replaced the Manitoba Hog Income Stabilization Plan in 1986. Provincial Government premiums for 1986/87 were $1.6 million and $1.9 million, respectively. Since the Manitoba Plan began in 1983, total assistance amounted to $16.1 million, including $10.6 million in net support payments, $1.7 million in net interest and a $3.8 million deficit write-off when the Plan was terminated.

- **Sugar beet** producers received a final payment of $784,100 in 1986, bringing total assistance from the Province for the 1985 crop to $2.9 million.

° Provincial support for **crop insurance** which includes administrative expenses plus waterfowl payments totalled $5.4 million in 1986/87. For the 1986 crop year, farmers will receive approximately $39.6 million in indemnity payments.

° The **Manitoba Water Services Board** provided loans and grants of $10.7 million in 1986/87 for water, sewer and water development in rural communities.

° **Agricultural research** at the University of Manitoba was supported by a $875,500 grant.

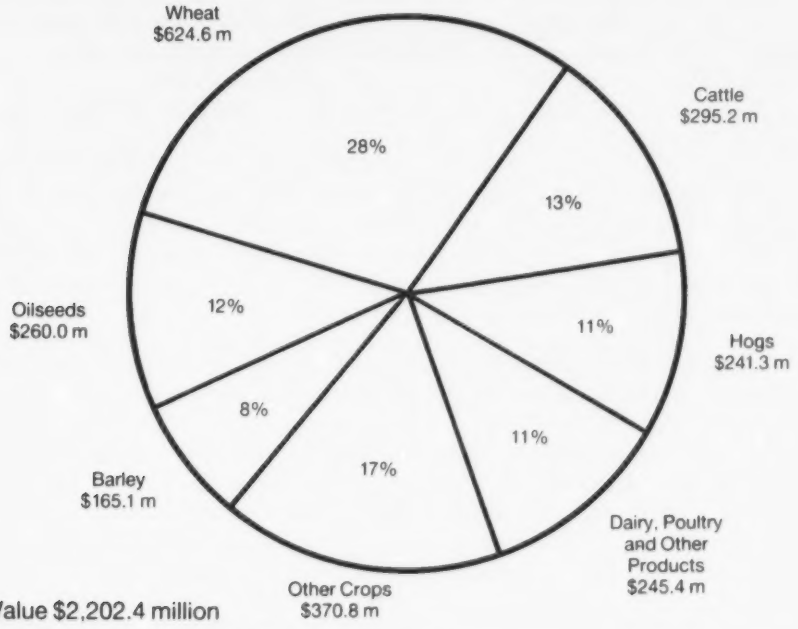
° **Special Child Related Income Support Program** payments for farm families were provided in 1986, and the asset limit increased so that more farm families received benefits from the Program.

° **Exemptions** are provided from the Retail Sales Tax for virtually all agricultural inputs, from fuel taxes and from the Corporation Capital Tax; and there are a number of special provisions for farmers under the income tax system. The value of these tax expenditures is over $80 million annually.

° Programs of the **Department of Agriculture** have emphasized: farm management training through courses provided for farm families; new production techniques to reduce costs; information targeted to enterprises with the greatest potential to improve productivity with the existing resource base; identifying and developing market opportunities in Canada and abroad; and diversifying and expanding the varieties of livestock and crops produced under soil conserving conditions.

The value of agricultural production totalled $2.2 billion in 1986, a decline of 12.1% from 1985. Production volumes for most of the major crops were above average, but below 1985 record levels. Wheat, barley and canola production declined 14%, 26% and 7%, respectively. The value of livestock production increased as a result of improved hog prices.

Agriculture Production, 1986



Total Value $2,202.4 million

Source: Statistics Canada and Manitoba Department of Agriculture

Farm cash receipts increased 5.9% to $2.1 billion in 1986, in part as a result of sales from inventories built up in previous years which helped offset lower Canadian Wheat Board prices. In Canada, there was a 3.3% increase in cash receipts. Manitoba livestock receipts increased 9.4% to $782.2 million, while crop receipts increased 5.0% to $1,309.1 million.

In 1986, farm expenses, at $1.6 billion, were down 1.8% from 1985 as declines in feed costs, rent, total machinery expenses, fertilizers and other crop expenses more than offset increased taxes, wages and other farm expenses. Realized net income increased to $516.2 million; however, farm inventories were reduced by an estimated $101.1 million from a year earlier and consequently, net farm income, which includes the value of the change in inventories, declined to an estimated $415.1 million.

Farm Financial Statistics, 1985 and 1986

	1985	1986	85/84	86/85
	($ millions)		(% change)	
Total Cash Receipts	1,997.9	2,114.9	2.4	5.9
Crops	1,246.4	1,309.1	1.4	5.0
Livestock	714.7	782.2	4.7	9.4
Other	36.8	23.6	-6.8	-35.9
Income in Kind	16.9	17.8	-12.4	5.3
Realized Gross Income	2,014.8	2,132.7	2.1	5.9
Farm Expenses	1,646.6	1,616.5	1.6	-1.8
Realized Net Income	**368.2**	**516.2**	-	-
Change in Inventories	294.3	-101.1	-	-
Net Farm Income	**662.5**	**415.1**	-	-

Source: Statistics Canada and Manitoba Department of Finance

According to federal projections, the number of Canadian farms in financial difficulty will increase from 21,050 farms in 1985, to 37,670 in 1987, while in Western Canada, the number is expected to more than double -- from 14,130 in 1985, to 30,705 in 1987. This would represent over 20% of the commercial grain farms on the Prairies.

Farm cash receipts are forecast to decline 5% in 1987. The Special Canadian Grains Program (SCGP) will provide $151.3 million to Manitoba farmers; however, crop receipts from marketings and other sources are projected to decline 21% as an oversupply of grain and the trade war continue to pressure prices. Livestock receipts are expected to increase 4%. Despite stable operating costs and depreciation charges, a significant decline is expected in realized net income.

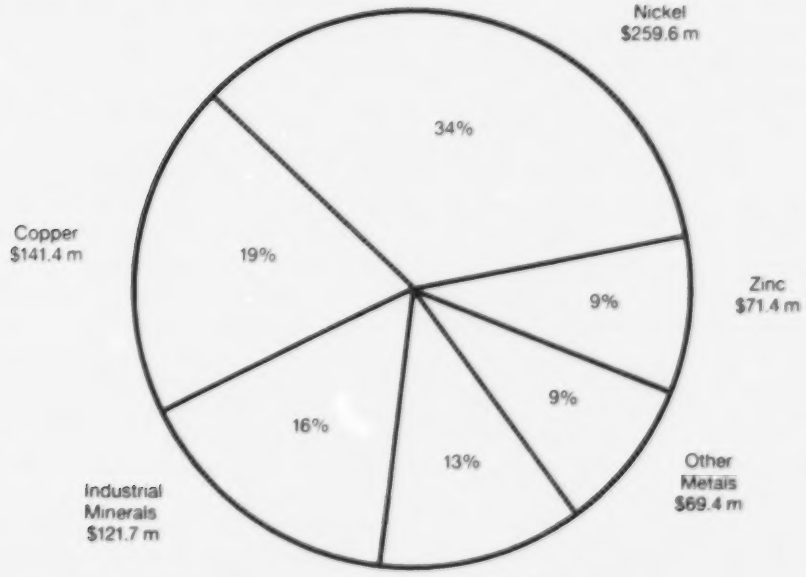
While the SCGP will help in the short term, no further federal assistance has been announced. During extended periods of depressed prices, the level of federal support through programs such as crop insurance, Canadian Wheat Board initial prices and the Western Grain Stabilization Program, which are linked to market prices, is insufficient to meet producers' basic needs and must be reassessed. A more concerted national effort is required to preserve the productive base of western Canadian agriculture, until such time as a rationalization of production and trading relations occurs internationally.

Minerals

The value of Manitoba's mineral production in 1986 declined 11.9% to $758 million. The sharp decline in the average price of mineral products was the dominant trend in the minerals sector during 1986. Petroleum and nickel, which represent almost one-half of the total value of mineral production, recorded average price declines of 47.4% and 19.1%, respectively.

The value of production of industrial minerals, based largely on a substantial increase in cement production, increased 11.4% to $122 million. Declines in the value of production of nickel and zinc, amounting to 9.4% to $260 million, and 12% to $71 million, respectively, resulted in a 5.3% decline in the value of metal production in 1986. The value of copper increased 3.1% to $141 million, and other metal production increased 3.5% to $69 million. Although the volume of petroleum production remained unchanged, the decline in price was reflected in a 47.2% decline in the value of production, to $95 million.

Mineral Production, 1986



Total Value $758.4 million

Source: Manitoba Department of Energy and Mines

Mining exploration, at $36 million, matched the 1985 level, the highest ever in current dollar terms. Exploration has concentrated on precious metals, including the MacLellan Mine (gold and silver), which is Manitoba's first new gold mine since 1949, Tartan Lake (gold), Farley Lake (gold) and the Puffy Lake Deposit (gold). Other potential developments include Namew Lake (nickel), Consolidated Callinan Property (copper-zinc) and Morgan Lake (copper-zinc).

A Co-ownership and Development Agreement between Canamax Resources Inc. and the Province of Manitoba was concluded in April, 1986, allowing the Manitoba Potash Project, located in the Binscarth area of southwestern Manitoba, to be brought to the stage where a final production decision can be made. A bankable feasibility document is scheduled for completion in 1987.

Hydro-electricity

In 1986, for the second consecutive year, favourable water conditions contributed to record hydro-electric power production and increased exports. The value of electric power sales rose to $614.0 million, 6.2% higher than in 1985. The volume of domestic sales increased 2.5%, while exports increased 13.7% -- due to increased sales to the United States.

Manitoba's electrical rates will continue to be among the lowest in North America. With the incorporation of changes to take effect April 1, 1987, residential electrical costs in Winnipeg will continue to compare favourably with major cities in Canada.

The major construction phase of the $1.73 billion Limestone Generating Station is fully under way. To date, with most major contracts awarded, Manitoba content has totalled 90% of the value of all contracts. Most of the work force has been recruited from Manitoba and, in the 1986 construction season, 44% were northerners, including 30% of northern Native ancestry. Peak employment in 1987 is expected to reach 1,650, 14% above the 1986 peak. The total project is estimated to create 6,000 person-years of direct construction employment and 13,000 person-years of indirect employment.

Two thousand northerners and northern Native residents have completed or are in training for construction and permanent jobs related to hydro development. Approximately 3,000 men and women will receive training before Limestone is completed. The Limestone Training and Employment Agency reports that over 70% of individuals who have completed community and simulated training have found work.

Monthly Residential Electricity Costs
Major Canadian Cities

	Cost per 750 kW h ($)
Halifax	56.44
St. John's	54.76
Saint John	47.38
Saskatoon	46.24
Thunder Bay	44.08
Toronto	43.47
Vancouver	42.15
Regina	41.82
Edmonton	40.05
Calgary	39.97
Montreal	34.93
Winnipeg	34.25

Note: Montreal, effective May 1, 1987. Winnipeg, includes changes effective April 1, 1987.

Source: Manitoba Hydro

Limestone will take eight years to build. First power will be available after six years, in 1990, when the first two generators will be producing electricity. The long-term development of Manitoba's hydro-electric resources will continue with the construction of the Conawapa Generating Station. It is expected that additional capacity will be required in 1997 to meet growth in Manitoba's electric power requirements. A third major transmission facility will be required to bring power from the North to Winnipeg when Conawapa comes into service.

Other Natural Resources

The outlook for lumber as well as pulp and paper markets remains positive, despite the potential adverse impact of the 15% export tax on softwood lumber.

The volume of timber harvested from Crown lands in 1985/86 increased 1% to 1,689,000 cubic metres, as a 12% decline in pulpwood production was more than offset by a 44% increase in lumber.

Sales by Manitoba's 3,800 commercial fishermen through the Freshwater Fish Marketing Corporation in 1986/87 will exceed the 1985/86 record of $48.7 million.

Economic rationalization of fishing operations was facilitated in 1986 by the introduction of the "quota entitlement" system on Lake Winnipeg. As well, commercial fishermen on Lake Winnipegosis agreed to a three-year closure designed to rebuild pickerel stocks on the lake.

Manitoba's commercial sport fishing industry will see the construction of two high-quality lodges at Knee Lake and Big Sand Lake in the North. In this innovative development, nearby northern communities will be the majority owners of the $1.5 to $2 million lodges and management will be provided by experienced private developers under a long-term contract. Local ownership will help ensure local economic benefits, including at least 60 seasonal jobs.

Manitoba's 15,000 licensed trappers harvested $4.8 million worth of wild fur in 1985/86. Increased fur prices and production, especially for beaver, are expected to result in a 1986/87 wild fur harvest of close to $6 million.

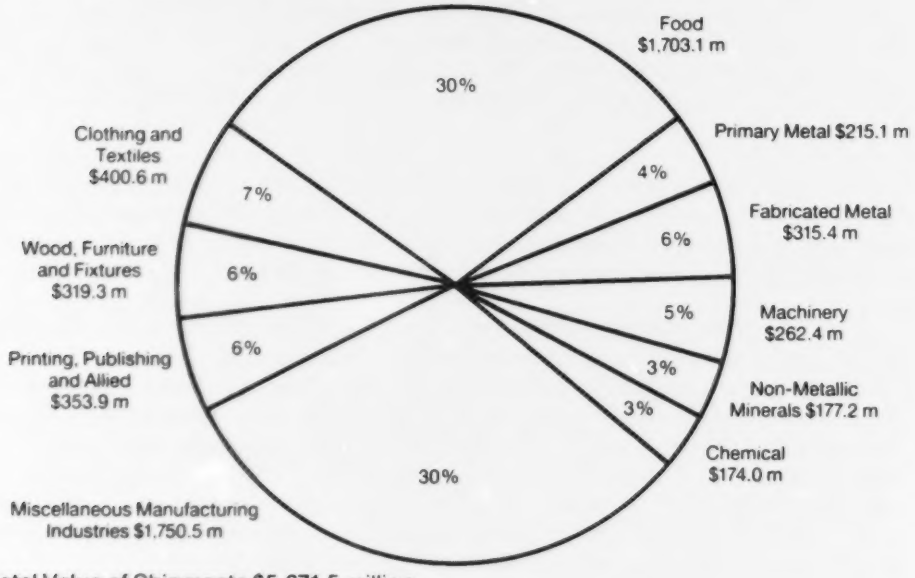
Manitoba's wild rice crop is an important source of seasonal income to approximately 200 licensed harvesters. The 1986 crop of 855,000 pounds was one-third higher than in 1985 and the ten-year average. The outlook for 1987 is very promising, with a crop of over 1,000,000 pounds expected. The North-West Producers Co-operative has supported the establishment of a plant in The Pas to process new sources of wild rice in the area and plans to develop a comprehensive national and international marketing program.

Manufacturing

In order to compete more effectively in both domestic and international markets, the manufacturing sector has had to meet the challenges of achieving greater efficiencies from its capital, management and work force. Adoption of new technology and better utilization of existing resources has resulted in increases in productivity throughout the sector, although industries linked to agriculture continue to suffer from weak market demand.

Manufacturing shipments increased 1.6% in 1986, to $5.7 billion, compared with a national increase of 2.2%. In Manitoba, performance varied across industries, with wood, furniture and fixtures; non-metallic minerals; and printing, publishing and allied industries recording gains of 15.4%, 14.4% and 9.7%, respectively. Machinery shipments, comprised primarily of farm equipment, declined 11.4%.

Manufacturing Shipments, 1986



Total Value of Shipments $5,671.5 million

Source: Statistics Canada

The food processing industry makes extensive use of locally grown farm products and has stimulated the production of oilseeds, vegetables and other specialty crops which have contributed to the diversification of agriculture in the province. In 1986, the Provincial Government and Carnation Foods Inc. signed a Development Agreement under the auspices of the Jobs Fund, providing for a $38 million expansion of the company's Carberry potato processing plant -- one of the largest capital investment projects in the history of Manitoba's food processing sector. Under the terms of the Agreement, Carnation will maintain the current average work force of 350 and create 50 new long-term jobs. As well, 50 construction-related jobs will be maintained during the building phases. It is estimated that the expansion will result in a one-third increase in potato acreage by 1990, and raise cash receipts $17.5 million annually.

Wood, furniture and fixtures has been the strongest growing manufacturing industry, reflecting the strong expansion in construction over the past four years. A recent success story in the sector is Palliser Furniture Ltd. which, under a Development Agreement with the Provincial Government, will complete a $14 million expansion of its Winnipeg operations, creating more than 340 new jobs and making this Winnipeg-based company the largest case goods furniture manufacturer in Canada.

Just as the expansion of farming operations and associated equipment requirements of the 1970s stimulated growth in the machinery industry, the cost-price squeeze in agriculture in the 1980s has created difficulties for machinery producers. In recent years, machinery sales have declined significantly and industry has responded with a consolidation of production capacity. The future prospects of two major machinery companies have recently been strengthened by new ownership and financing arrangements. The purchase of Versatile Farm Equipment Company by Ford New Holland Inc. is expected to ensure Winnipeg's leadership in world tractor technology. The new owners expect employment to increase to more than 900 by the end of the year, with further substantial increases over the next several years. Vicon Inc. originally established operations in Manitoba under a Development Agreement with the Provincial Government. A new financing arrangement between Co-op Implements Ltd. and Vicon now provides an opportunity for a strengthened partnership of their respective farm machinery dealerships and production facilities.

Manitoba's aerospace industry has grown from modest beginnings in the repair and overhaul of small aircraft in the 1930s, to serving more than 1,700 companies in a market that spans five continents and encompasses both manufacturing and aircraft servicing. Manitoba has recognized expertise and proficiency in this high-technology industry. It is an area which has expanded in the 1980s and, since its growth is independent of the natural resource sector, has strengthened and helped diversify the industrial base of the province. Industry sales, not including the repair and overhaul operations of Air Canada, were about $230 million in 1986, more than half of which are foreign exports.

Service Sector

The service sector provides Manitobans with approximately 72% of all jobs and 69% of provincial output. The private sector produces a broad spectrum of commercial services, including transportation, communications, storage, retail and wholesale, financial, insurance, real estate, as well as a variety of specific business and personal services. The remaining services are classified as non-commercial and include hospitals, schools, colleges, universities and public administration.

In 1986, increased employment in the service sector, along with the increase in construction, offset the slight decline in resource sector and manufacturing employment, and accounted for all the job creation in the province. Commercial sector increases accounted for 9,000 jobs, or almost three-quarters of the increase in employment. The largest gains were reported in communications, retail trade, business and personal services.

Trade Sector

In 1986, retail sales in Manitoba increased a further 4.5%, to $5.4 billion, following outstanding growth of 15.2% in the previous year. Retail sales in Canada increased 7.9% in 1986. Despite the downturn in farm incomes, growth was slightly stronger outside of Winnipeg than in the city. Furniture and appliance, and recreation and accessories stores reported the largest increases in sales, followed by clothing stores, automobile dealerships and food stores. The value of wholesale trade rose to over $6.5 billion in Manitoba in 1986, an increase of about 11%, approximately the same rate as for Canada.

Retail Sales, 1986

	1986 ($ millions)	86/85 (% change)	1986 (% of total)
Type of Store:			
Food	1,431.1	6.2	26.3
Department	622.4	1.4	11.4
General and Variety	297.4	0.0	5.5
Motor Vehicle	1,110.0	6.9	20.4
Automotive Service	586.5	-1.7	10.8
Apparel	247.3	7.0	4.5
Furniture and Appliance	144.7	10.7	2.7
Pharmacy and Cosmetic	174.9	0.0	3.2
Recreation and Accessories	142.2	10.6	2.6
Other	680.5	6.1	12.5
Region:			
Winnipeg	3,579.6	4.1	65.8
Rest of Manitoba	1,857.7	5.5	34.2
Total	**5,437.3**	**4.5**	**100.0**

Source: Statistics Canada

Tourism

Manitoba, with its central geographical location and excellent resource base for year-round recreational activities, serves a substantial tourist market area. The number of travellers in Manitoba increased 17.2% in 1986, to 7.7 million.

The outlook for 1987 is for continued growth in the number of tourists. As well, Winnipeg will host two major travel industry events -- Rendez-vous Canada, which is Canada's largest travel trade show, and the Meeting Planners International Conference, which brings together twelve hundred of the most influential meeting and convention planners in North America.

Outlook Summary

In the year ahead, real growth in the national economy is expected to be somewhat lower, as more moderate rates of expansion are realized in the fastest growing areas of the country, and eastern and western provinces continue to experience relatively slow growth.

In this context, Manitoba is again expected to realize one of the fastest growth rates in real output in the country. The province's diverse economic structure protects aggregate production and income from the volatility experienced in the rest of Western Canada as a result of resource price changes. Nonetheless, low prices for farm and mineral products continue to take a toll. As well, constrained markets due to lower growth in Canada, the farm crisis and weak performance in neighbouring provinces to the west, are expected to affect earnings for export sectors such as manufacturing. Major construction projects including Limestone and urban redevelopment in Winnipeg, along with continued progress in home building and many smaller projects, are providing welcome offsets and signal another strong year for the construction sector. Prospects for the transportation, communications and utilities sector remain good and, once again, the expansion of services and related job creation will be an important contributor to economic expansion.

Overall, it is expected that real output will rise by close to 3% in Manitoba in 1987. Gross Provincial Product, measured in current dollars, is expected to increase by close to 6%. Further improvement is anticipated in the labour market as employment is expected to increase by about 2% and again exceed growth in the labour force. As a result, Manitoba's unemployment rate is projected to decline for the fourth consecutive year and remain among the lowest in Canada.

Economic Statistics, 1982 to 1986

	1982	1983	1984	1985	1986p	83/82	84/83	85/84	86/85
	($ millions)					(per cent change)			
GROSS PROVINCIAL PRODUCT	13,830.0	15,080.0	16,960.0	18,320.0	19,290.0	9.0	12.5	8.0	5.3
SECTORS									
Agricultural Production	2,043.0	1,985.1	2,301.8	2,505.6	2,202.4	-2.8	16.0	8.9	-12.1
Manufacturing Shipments	4,854.0	4,882.5	5,250.1	5,579.7	5,671.5	0.6	7.5	6.3	1.6
Mineral Production	550.3	693.6	816.8	861.3	758.4	26.0	17.8	5.4	-11.9
Electric Power Sales	440.7	476.4	532.4	578.1	614.0	8.1	11.8	8.6	6.2
Housing Starts (Units)	2,030.0	5,985.0	5,308.0	6,557.0	7,699.0	194.8	-11.3	23.5	17.4
Retail Trade	3,830.0	4,099.9	4,513.7	5,200.8	5,437.3	7.0	10.1	15.2	4.5
INCOME									
Farm Cash Receipts	1,703.7	1,769.9	1,951.2	1,997.9	2,114.9	3.9	10.2	2.4	5.9
Total Personal	12,410.0	13,130.0	14,700.0	16,010.0	17,000.0	5.8	12.0	8.9	6.2
Personal Disposable	10,580.0	11,070.0	12,450.0	13,600.0	14,200.0	4.6	12.5	9.2	4.4
Wages and Salaries	7,207.8	7,639.4	8,255.9	8,665.7	9,300.2	6.0	8.1	5.0	7.3
INVESTMENT									
Total[1]	1,954.9	2,184.4	2,538.0	3,194.7	3,556.1	11.7	16.2	25.9	11.3
Non-residential	1,774.6	1,755.8	2,110.7	2,376.9	2,569.7	-1.1	20.2	12.6	8.1
Housing[1]	180.3	428.6	427.3	817.8	986.4	137.7	0.3	91.4	20.6
POPULATION									
June (000's)	1,034.5	1,048.1	1,058.8	1,070.6	1,078.6	1.3	1.0	1.1	0.7
JOBS									
Labour Force (000's)	496.0	508.0	515.0	523.0	533.0	2.4	1.4	1.6	1.9
Employment (000's)	454.0	460.0	472.0	480.0	493.0	1.3	2.6	1.7	2.7
Participation Rate (%)	64.9	65.6	65.7	65.8	66.4	-	-	-	-
Unemployment Rate (%)	8.5	9.4	8.3	8.1	7.7	-	-	-	-
CONSUMER PRICES									
Index, 1981 = 100	108.8	116.1	120.3	125.3	130.9	6.7	3.6	4.2	4.5

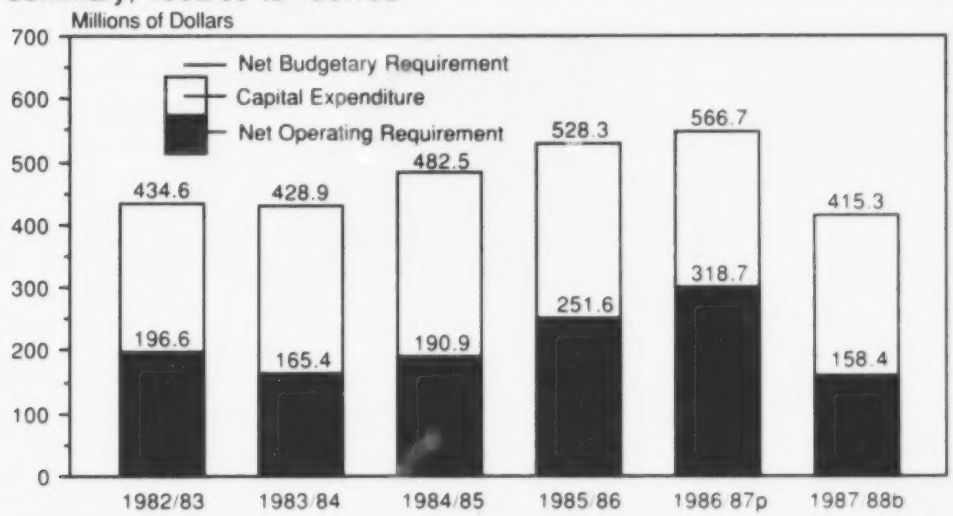
p - preliminary

[1]Estimates prior to 1985 have not been revised to reflect changes to the current housing series.

Source: Statistics Canada and Manitoba Department of Finance

Manitoba's Budgetary Position

Summary, 1982/83 to 1987/88



p - projected b - budget

Source: Manitoba Department of Finance

NET BUDGETARY REQUIREMENT

1986/87 Budget ($ Millions)	1986/87 Projected* ($ Millions)		1987/88 Budget ($ Millions)	Difference from 1986/87 Budget (%)	Difference from 1986/87 Projected (%)
3,870	3,941	Budgetary Expenditure	4,188	8.2	6.3
3,380	3,374	Budgetary Revenue	3,773	11.6	11.8
489	567	Net Budgetary Requirement	415	<15.1>	<26.7>

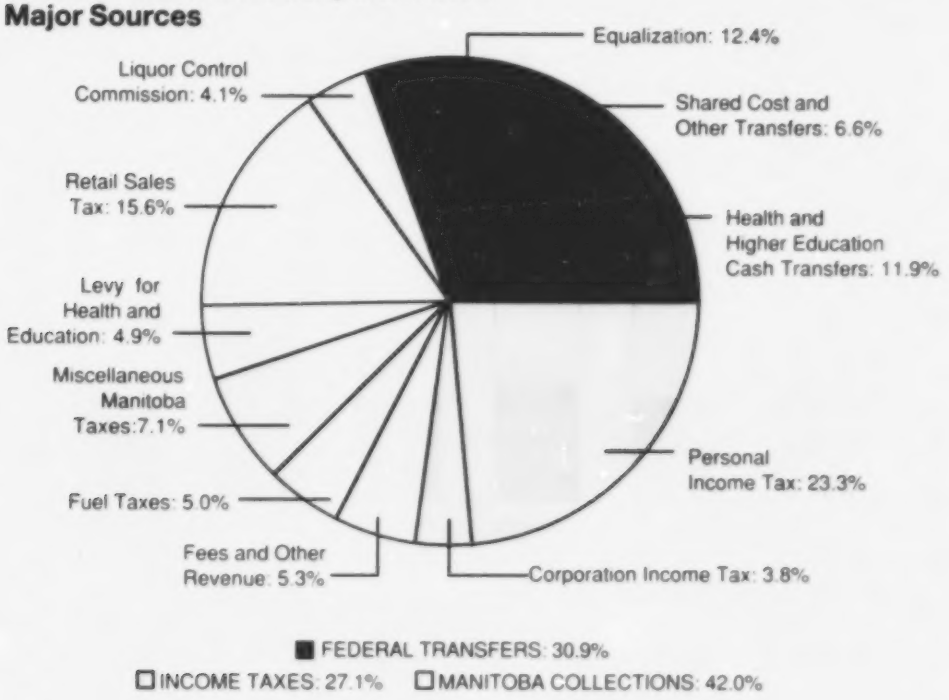
NET OPERATING POSITION

1986/87 Budget ($ Millions)	1986/87 Projected* ($ Millions)		1987/88 Budget ($ Millions)	Difference from 1986/87 Budget (%)	Difference from 1986/87 Projected (%)
489	567	Net Budgetary Requirement	415	<15.1>	<26.7>
266	248	Less Capital Expenditure	257	<3.4>	3.6
224	319	Net Operating Requirement	158	<29.5>	<50.3>

*Third Quarter Financial Report

Provincial Revenue, 1987/88

Major Sources

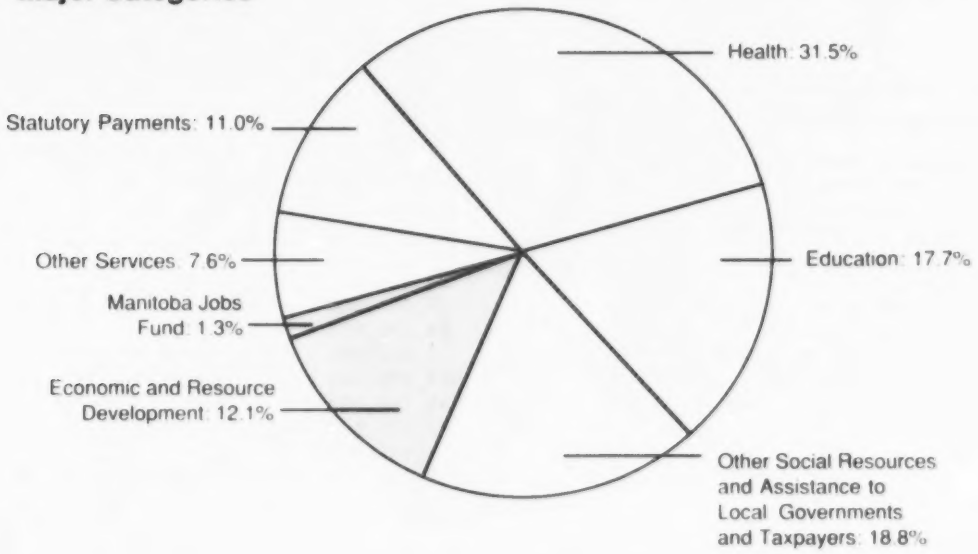

Equalization: 12.4%
Liquor Control Commission: 4.1%
Shared Cost and Other Transfers: 6.6%
Retail Sales Tax: 15.6%
Health and Higher Education Cash Transfers: 11.9%
Levy for Health and Education: 4.9%
Miscellaneous Manitoba Taxes:7.1%
Personal Income Tax: 23.3%
Fuel Taxes: 5.0%
Fees and Other Revenue: 5.3%
Corporation Income Tax: 3.8%
FEDERAL TRANSFERS: 30.9%
INCOME TAXES: 27.1%
MANITOBA COLLECTIONS: 42.0%

ESTIMATES	$ Millions		$ Per Capita	
Manitoba Collections		1,584.0		1,458
Retail Sales Tax	590.0		543	
Fuel Taxes	188.8		174	
Liquor Commission	154.0		142	
Levy for Health and Education	184.8		170	
Miscellaneous Manitoba Taxes	267.8		246	
Fees and Other Revenue	198.6		183	
Income Taxes		1,023.5		942
Corporation Income Tax	142.6		131	
Personal Income Tax	880.9		811	
Federal Transfers		1,165.1		1,073
Equalization	469.0		432	
Health and Higher Education	447.0		412	
Shared-Cost and Other	249.1		229	
TOTAL REVENUE		**3,772.6**		**3,473**

1987/88 Revenue Estimates

		1987/88 Estimate	% of Total
OWN SOURCE REVENUE			
Manitoba Collections		$1,583,981,500	42.0
Taxes, Levies and Collections			
° Land Transfer Tax	$ 21,400,000		
° Corporation Capital Tax	58,700,000		
° Gasoline Tax	115,000,000		
° Insurance Corporations Tax	17,700,000		
° Levy for Health & Education	184,800,000		
° Mining Tax	7,000,000		
° Motive Fuel Tax	73,800,000		
° Oil & Natural Gas Tax	7,500,000		
° Retail Sales Tax	590,000,000		
° Revenue Act, 1964, Part I	40,500,000		
° Tobacco Tax	93,000,000		
° Other Taxes	5,155,000		
° Reciprocal Taxation Agreement	16,800,000		
Sub-Total	$1,231,355,000		
Fees and Other Revenue			
° Fines & Costs; Land Titles; & Other Legal	$ 20,675,100		
° Minerals & Petroleum & Other Energy & Mines	5,203,200		
° Automobile & Motor Carrier Licences & Fees	40,981,700		
° Drivers' Licences	7,448,900		
° Water Resources	31,636,000		
° Parks; Forestry; Fisheries & Other Natural Resources	15,157,000		
° All Other Manitoba Collections	77,524,600		
Sub-Total	$ 198,626,500		
Liquor Control Commission	$ 154,000,000		
Income Taxes		1,023,500,000	27.1
° Corporation Income Tax	$ 142,600,000		
° Individual Income Tax	880,900,000		
FEDERAL TRANSFERS		1,165,127,300	30.9
Equalization	$ 469,000,000		
Health and Higher Education Cash Transfer	$ 447,000,000		
Shared-Cost and Other Transfers			
° Canada Assistance Plan	$ 170,802,500		
° Other	78,324,800		
Sub-Total	$ 249,127,300		
TOTAL REVENUE		**$3,772,608,800**	**100.0**

Provincial Expenditure, 1987/88
Major Categories


Health: 31.5%
Statutory Payments: 11.0%
Other Services: 7.6%
Education: 17.7%
Manitoba Jobs Fund: 1.3%
Economic and Resource Development: 12.1%
Other Social Resources and Assistance to Local Governments and Taxpayers: 18.8%
ECONOMIC DEVELOPMENT: 13.4%
PUBLIC SERVICES AND OTHER EXPENDITURES: 86.6%

ESTIMATES	$ Millions	$ Per Capita
Health	1,327.4	1,222
Education	747.3	688
Other Social Resources and Assistance to Local Governments and Taxpayers	793.7	731
Economic and Resource Development	511.8	471
Manitoba Jobs Fund	55.0	51
Other Services	320.6	296
Statutory Finance Payments	462.1	425
TOTAL EXPENDITURE ESTIMATES	**4,217.9**	**3,884**
Less Year-End Savings	30.0	28
TOTAL BUDGETARY EXPENDITURE	**4,187.9**	**3,856**

1987/88 Expenditure Estimates

		1987/88 Estimate	% of Total
Health		$1,327,380,500	31.5
Education		747,334,100	17.7
Other Social Resources and Assistance to Local Governments and Taxpayers		793,732,600	18.8
° Community Services	$203,787,700		
° Culture, Heritage & Recreation	19,949,000		
° Employment Services & Economic Security	236,184,900		
° Labour	9,846,900		
° Municipal Affairs	41,869,500		
° Urban Affairs	64,994,600		
° Tax Credit Payments	217,100,000		
Economic and Resource Development		511,775,500	12.1
° Agriculture	$ 84,664,800		
° Business Development & Tourism	18,337,300		
° Co-operative Development	3,260,600		
° Crown Investments	787,400		
° Energy & Mines	11,972,900		
° Environment & Workplace Safety & Health	12,272,300		
° Highways & Transportation	203,520,800		
° Housing	47,869,900		
° Industry, Trade & Technology	8,935,900		
° Natural Resources	85,960,800		
° Northern Affairs	26,381,100		
° Canada-Manitoba Enabling Vote	7,811,700		
Manitoba Jobs Fund		55,000,000	1.3
Other Services		320,529,400	7.6
° Legislation	$ 9,371,000		
° Executive Council	2,587,900		
° Attorney General	82,099,300		
° Civil Service	63,068,200		
° Consumer & Corporate Affairs	4,444,400		
° Emergency Interest Rate Relief	1,445,000		
° Finance - Departmental Programs	17,919,600		
° Government Services	138,594,000		
° Flood Control & Emergency Expenditures	1,000,000		
Statutory Finance Payments		462,108,200	11.0
° Public Debt Costs	438,223,500		
° Hydro Rate Stabilization	23,884,700		
TOTAL EXPENDITURE ESTIMATES		$4,217,860,300	100.0
Less Year-End Savings		30,000,000	
TOTAL BUDGETARY EXPENDITURE		$4,187,860,300	

Incremental Capital Authority Requirements for Non-Budgetary Programs, 1987/88

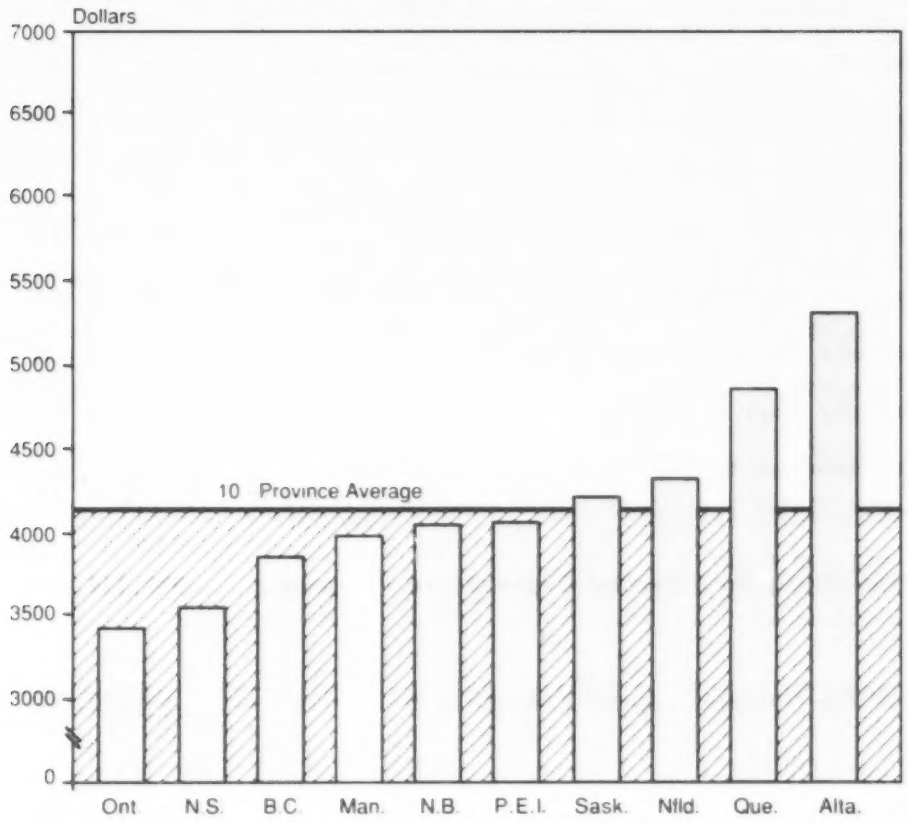
The Loan Act, 1987

Manitoba Telephone System	$ 45,900,000
Manitoba Data Services	9,400,000
Manitoba Agricultural Credit Corporation	69,000,000
Manitoba Housing and Renewal Corporation	97,000,000
Manitoba Water Services Board	12,000,000
Co-operative Loans and Loan Guarantee Board	1,250,000
Hospital Capital Financing Authority	38,500,000
	$273,050,000

Non-Budgetary Capital Program 1987/88

Manitoba Hydro	$ 391,200,000
Manitoba Telephone System	165,000,000
Manitoba Data Services	14,635,000
Manitoba Agricultural Credit Corporation	84,000,000
Manitoba Housing and Renewal Corporation	138,395,000
Manitoba Water Services Board	19,115,000
Manitoba Jobs Fund	54,350,000
Miscellaneous Corporations and Agencies	81,423,000
Non-Budgetary Capital Expenditure Program	**948,118,000**
Manitoba Hospital Capital Financing Authority	80,000,000
Total Non-Budgetary Capital Program	**$1,028,118,000**

Gross General Revenue Per Capita
Interprovincial Comparison, 1986/87

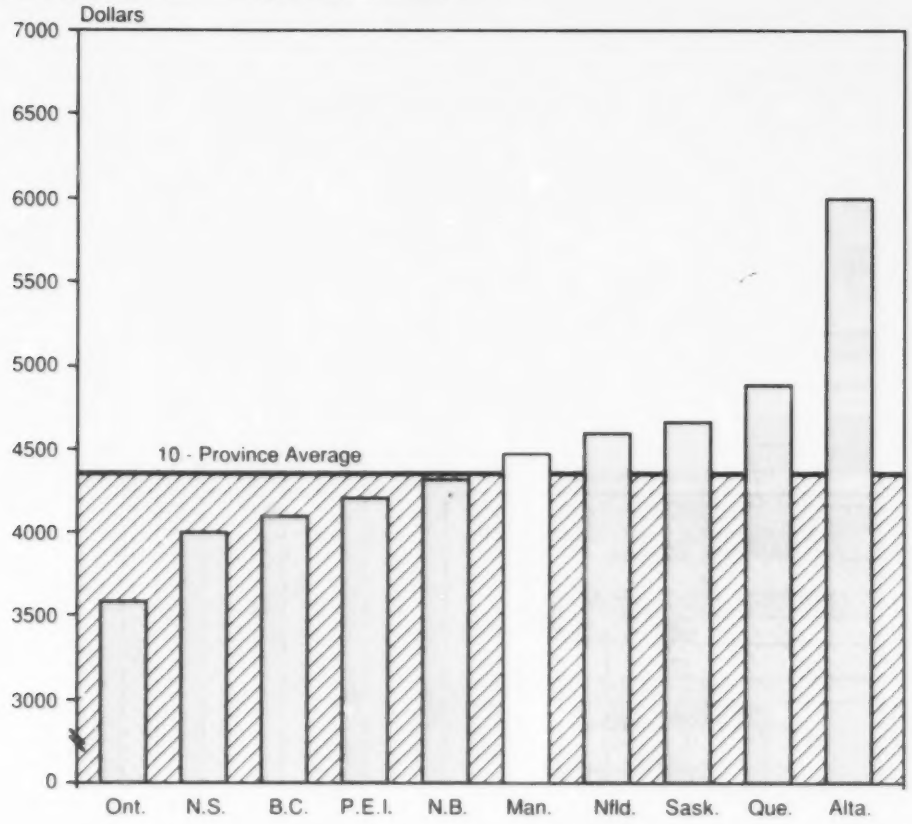


Province	Dollars Per Capita	Province	Dollars Per Capita
Newfoundland	4313	Manitoba	3975
Prince Edward Island	4052	Saskatchewan	4205
Nova Scotia	3551	Alberta	5308
New Brunswick	4042	British Columbia	3863
Quebec	4854		
Ontario	3424	10-PROVINCE AVERAGE	4122

Source: Statistics Canada (CANSIM)

Gross General Expenditure Per Capita

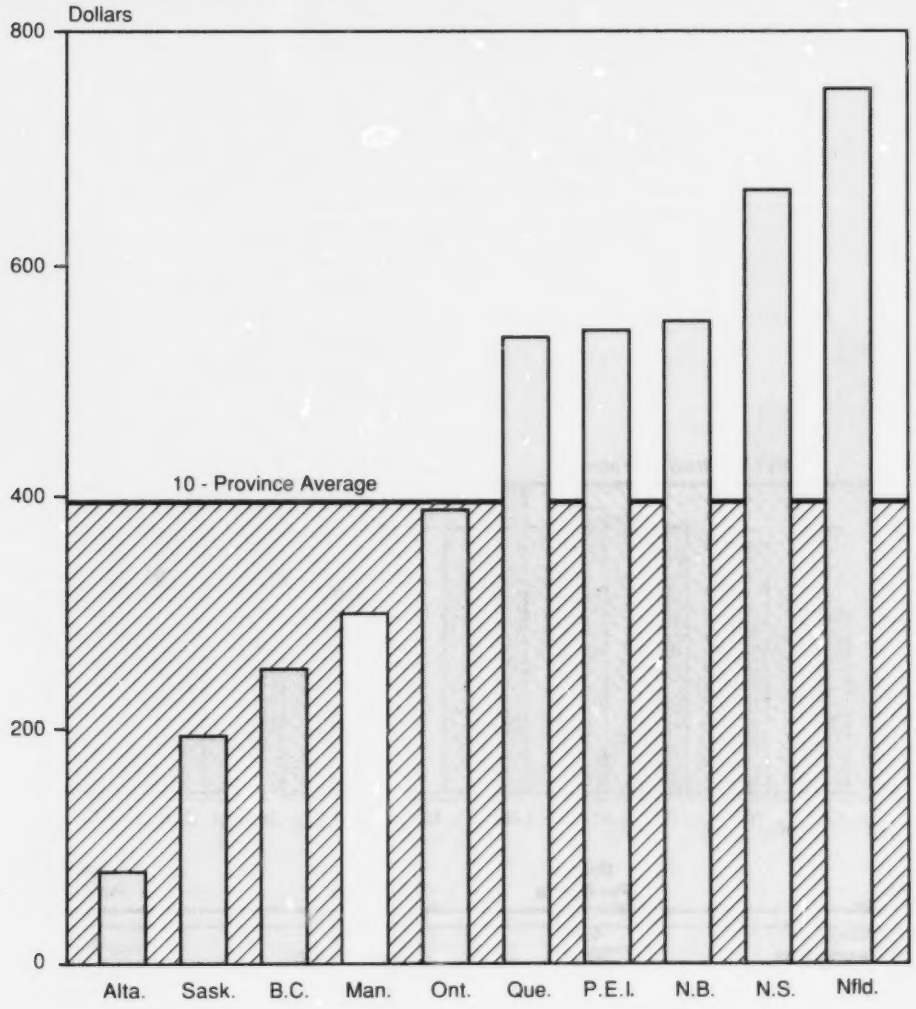
Interprovincial Comparison, 1986/87



Province	Dollars Per Capita	Province	Dollars Per Capita
Newfoundland	4590	Manitoba	4466
Prince Edward Island	4201	Saskatchewan	4666
Nova Scotia	3991	Alberta	6002
New Brunswick	4306	British Columbia	4107
Quebec	4877		
Ontario	3590	10-PROVINCE AVERAGE	4349

Source: Statistics Canada (CANSIM)

Debt Charges Per Capita
Interprovincial Comparison, 1986/87



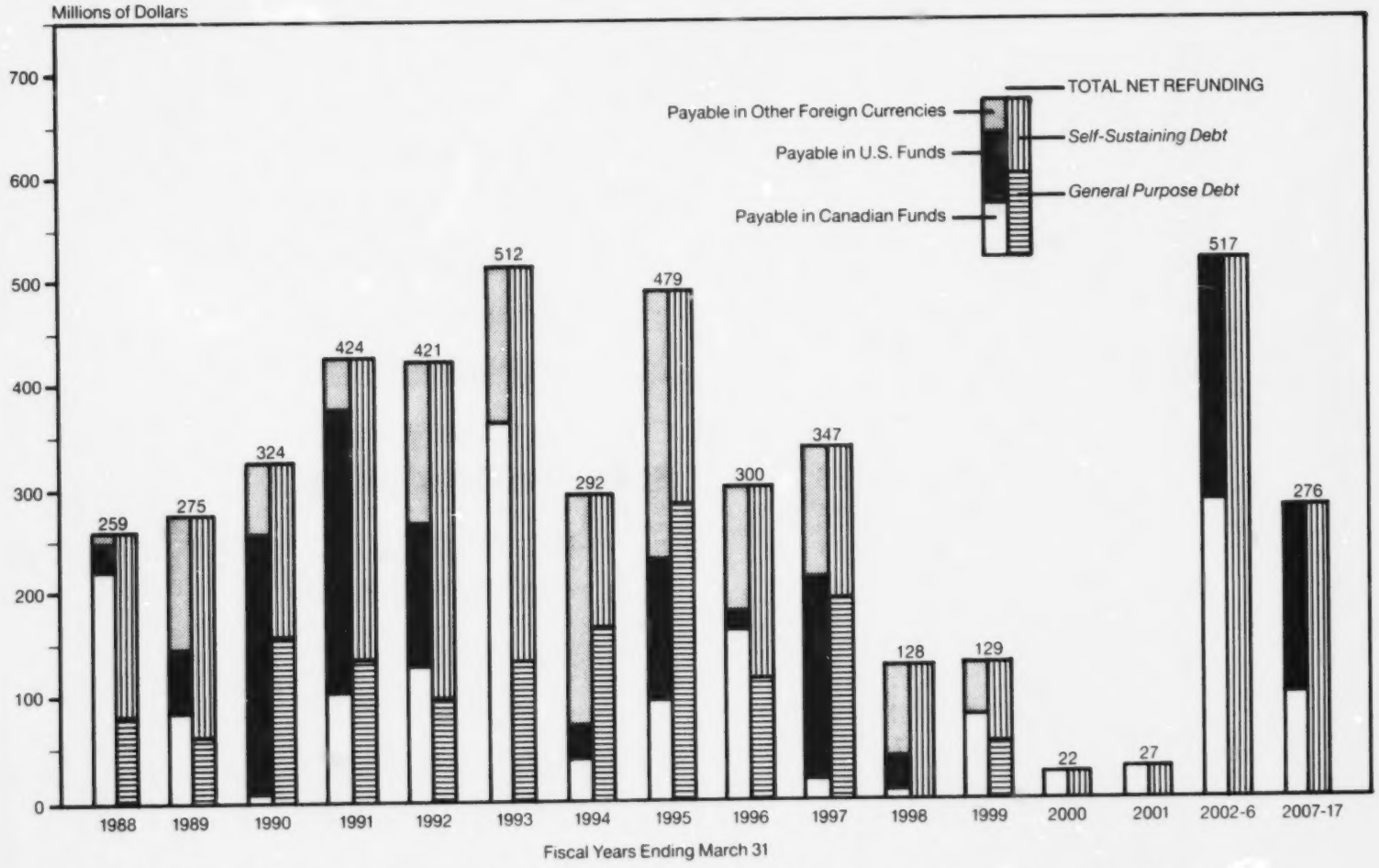
Province	Dollars Per Capita	Province	Dollars Per Capita
Newfoundland	751	Manitoba	299
Prince Edward Island	545	Saskatchewan	197
Nova Scotia	663	Alberta	79
New Brunswick	551	British Columbia	253
Quebec	537		
Ontario	389	10-PROVINCE AVERAGE	393

Source: 1986/87 Provincial Budgets; Population from Statistics Canada

Province of Manitoba Direct and Guaranteed Debt

Net Refunding Requirements by Fiscal Year: By Currency of Payment and Purpose

As at December 31, 1986



Note: The above table indicates the amount which the Province of Manitoba will have to borrow for the purpose of repaying Direct and Guaranteed Debt outstanding at December 31, 1986, after application of accumulated sinking funds based on the Canadian Dollar Equivalent on the date of issue.

Statement of Valuation and Purpose of Bonds, Debentures, and Other Long-Term Debt Outstanding

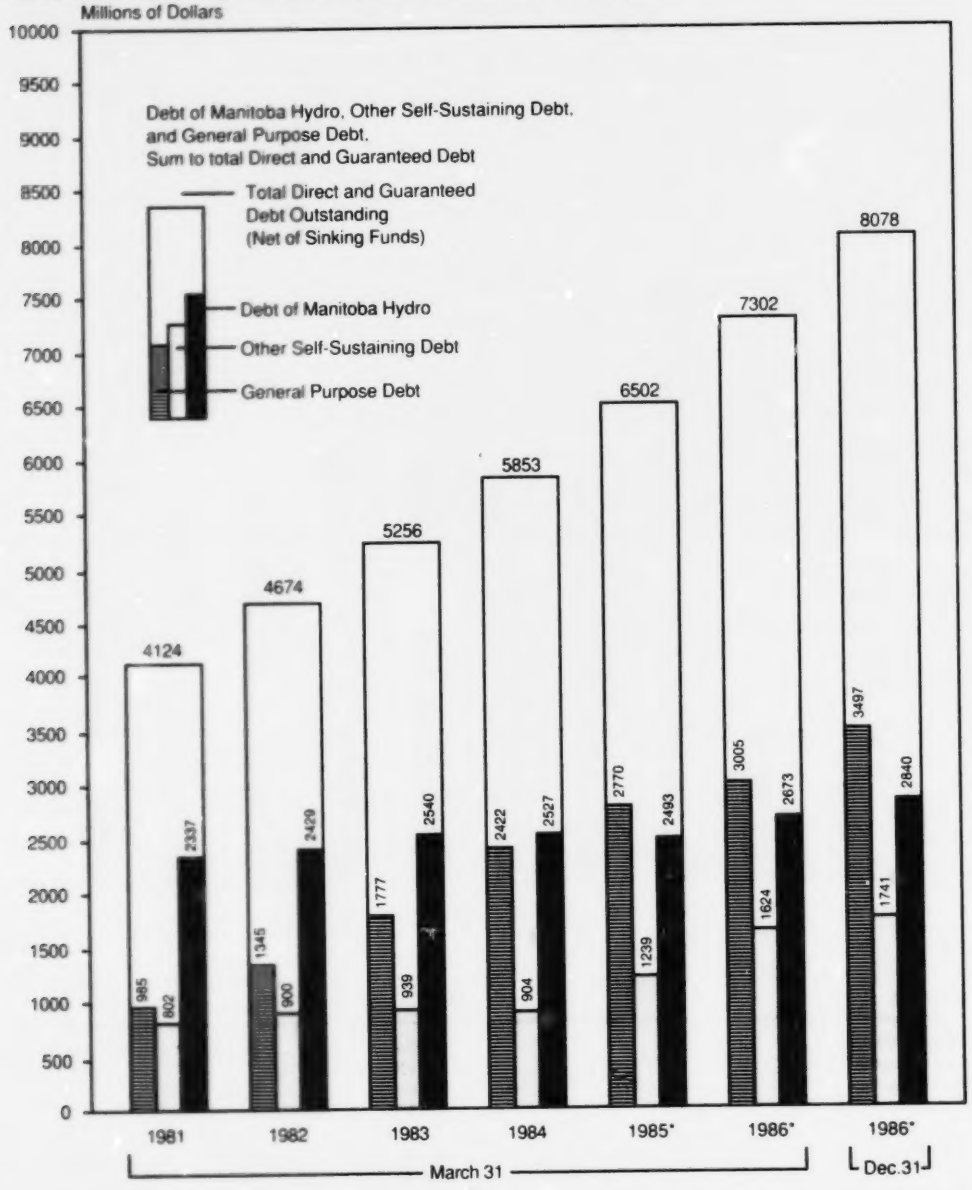
as at December 31, 1986
(In thousands)
(Unaudited)

Valuation of Debt	Par Value	Canadian Dollar Equivalent at Date of Issue	Exchange Rate as at December 31, 1986	Canadian Dollar Valuation	Amortized Book Value (Note 1)	Unamortized Foreign Exchange Fluctuation
Direct Debt Payable in:						
Canadian Dollars	3,424,649	$3,424,649	$1.00	$3,424,649	$3,424,649	$ -
U.S. Dollars	1,478,700	1,851,264	1.3805	2,041,345	1,934,204	107,141
Swiss Francs	1,429,000	884,499	0.8548	1,221,509	900,604	320,905
European Units of Account	3,000	3,240	3.49109	10,473	6,655	3,818
Japanese Yen (Note 2)	132,700,000	709,864	0.008473	1,124,377	809,907	314,470
Deutsche Marks	900,000	491,786	0.7160	644,400	493,585	150,815
Total Direct Debt		$7,365,302		$8,466,753	$7,569,604	$ 897,149
Guaranteed Debt Payable in:						
Canadian Dollars	1,000,025	$1,000,025	$1.00	$1,000,025	$1,000,025	$ -
U.S. Dollars	773,000	772,490	1.3805	1,067,127	889,609	177,518
Swiss Francs	80,000	54,280	0.8548	68,384	54,280	14,104
Deutsche Marks	15,000	4,593	0.7160	10,740	7,173	3,567
Total Guaranteed Debt		$1,831,388		$ 2,146,276	$1,951,087	$ 195,189
Total Direct & Guaranteed Debt		$9,196,690		$10,613,029	$9,520,691	$1,092,338
Less: Sinking Funds		1,118,164		1,118,164	1,118,164	
Net Direct and Guaranteed Debt		$8,078,526		$ 9,494,865	$8,402,527	
Purpose of Debt						
General Government Programs		$3,496,949		$4,213,076	$3,640,542	$ 572,534
Other:						
The Manitoba Hydro-Electric Board		$2,840,129		$3,483,359	$3,020,537	$462,822
The Manitoba Telephone System		624,278		681,260	624,278	56,982
Manitoba Properties Inc.		399,143		399,143	399,143	-
The Manitoba Agricultural Credit Corporation		226,639		226,639	226,639	-
The Manitoba Housing & Renewal Corporation		107,772		107,772	107,772	-
Manitoba Jobs Fund Programs		149,992		149,992	149,992	-
Manfor Ltd.		115,142		115,142	115,142	-
University of Manitoba		5,273		5,273	5,273	-
The Manitoba Water Services Board		16,272		16,272	16,272	-
The Manitoba Beef Stabilization Fund		37,600		37,600	37,600	-
Emergency Interest Rate Relief Programs		9,000		9,000	9,000	-
Manitoba Mineral Resources Ltd.		8,400		8,400	8,400	-
Manitoba Data Services		5,094		5,094	5,094	-
The Manitoba Hog Income Stabilization Plan		10,000		10,000	10,000	-
The Manitoba Oil and Gas Corporation		15,000		15,000	15,000	-
Venture Capital Program		1,000		1,000	1,000	-
Federal-Provincial Loan Agreements		9,664		9,664	9,664	-
Municipal, Hospital & Other Indebtedness		1,179		1,179	1,179	-
		$4,581,577		$5,281,789	$4,761,985	$ 519,804
Net Direct and Guaranteed Debt		$8,078,526		$9,494,865	$8,402,527	$1,092,338

NOTE 1: The amortized book value represents the estimated March 31, 1987 balances adjusted for any maturities during the period between December 31, 1986 and March 31, 1987.

NOTE 2: The December 31, 1986 Canadian Dollar Valuation of the Province's Japanese Yen Debt is based on 122.2 billion Japanese Yen converted at a rate of $0.008682 Canadian and 48.1 million U.S. Dollars (representing 10.5 billion Japanese Yen covered under currency exchange agreements) converted at a rate of $1.3805 Canadian. Calculation may differ due to rounding.

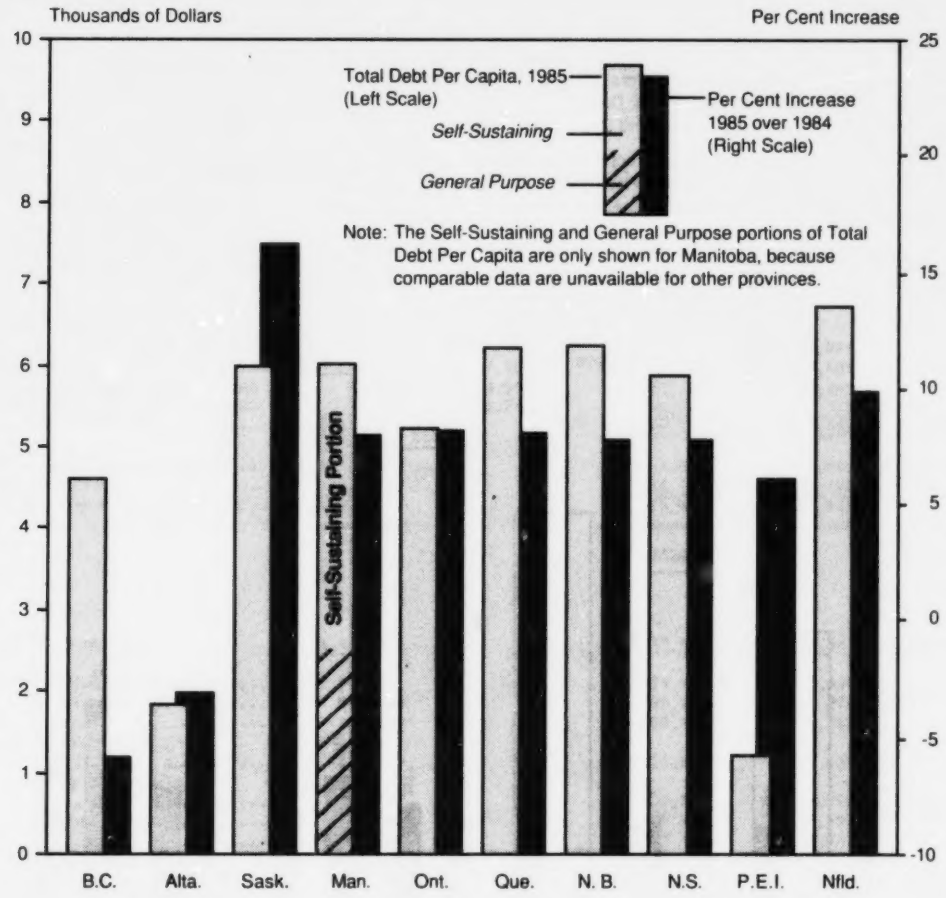
Province of Manitoba
Direct and Guaranteed Debt: By Purpose



Note: The above table indicates the Total Direct and Guaranteed Debt of the Province of Manitoba (after deducting accumulated Sinking Funds) based on the Canadian Dollar Equivalent on the date of issue for all foreign debt.

* Includes $278 million in 1985 and $399 million in 1986 of cumulative redeemable retractable 9 1/4% preferred shares issued by Manitoba Properties, Inc., guaranteed by the Province.

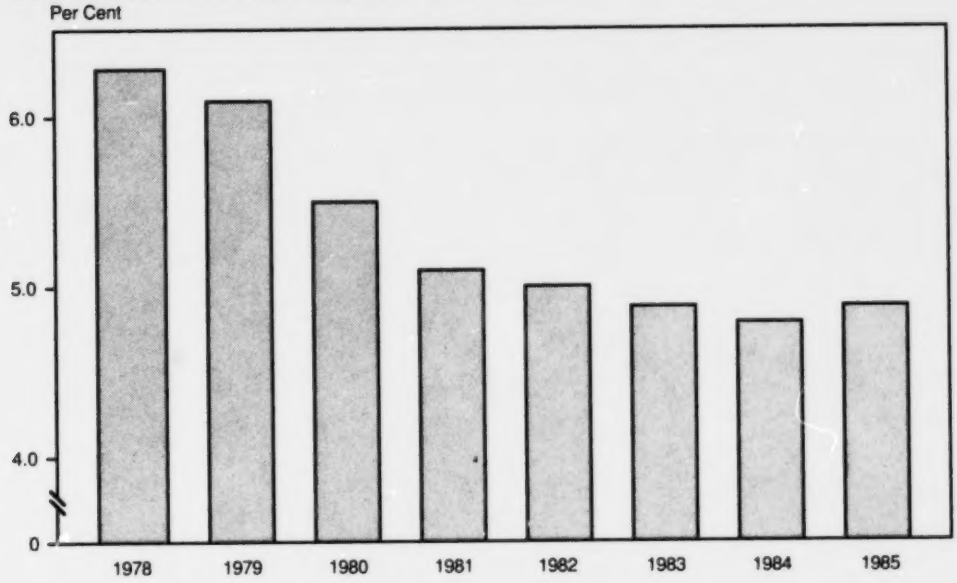
Total Debt Per Capita
Interprovincial Comparison
as of March 31, 1985



Province	March 1984 ($ Thousands)	March 1985 ($ Thousands)	Increase (Per Cent)
Newfoundland	6,124	6,730	9.90
Prince Edward Island	1,142	1,211	6.04
Nova Scotia	5,461	5,891	7.87
New Brunswick	5,814	6,259	7.65
Quebec	5,721	6,206	8.48
Ontario	4,801	5,212	8.56
Manitoba	5,567	6,023	8.19
Saskatchewan	5,142	5,987	16.43
Alberta	1,892	1,833	(3.12)
British Columbia	4,887	4,602	(5.83)

Source: Bank of Montreal, Provincial Summaries, 1986

Manitoba's Debt as a Portion of 10-Province Debt, 1978 to 1985



Source: Bank of Montreal Provincial Summaries, 1986

PEOPLE AND PROGRAMS: SERVICES TO MANITOBANS

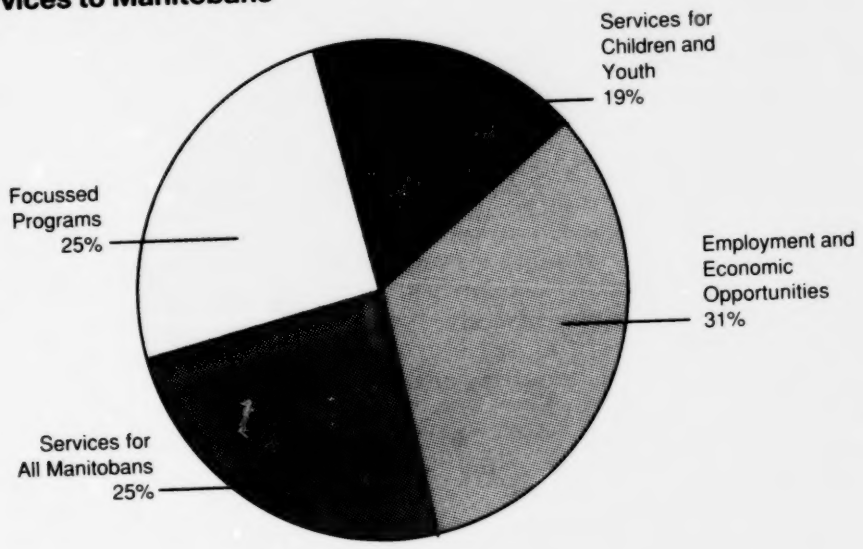
INTRODUCTION

Manitoba is characterized by a dynamic partnership of many different groups. Traditionally, we think of labour, business and government as the major groups, but in reality, there are many other active partners, including community, cultural and social organizations, professional and voluntary associations, neighbourhoods, families and individuals. All Manitobans interact to produce, distribute and share in the economic and social benefits we enjoy as citizens.

Manitobans know that economic and social development must be closely linked. By working together, we have ensured that everyone has access to vital education, health and social services. And we have protected these services in times of economic hardship. At the same time, we have acted to secure economic development in order that Manitobans will continue to have a secure base upon which to build a stronger and fairer society.

Government has a responsibility to promote a balanced and progressive society which is responsive to both the economic and social concerns of its citizens. One of the marks of effective democratic government is the fairness which can be found in the society which it is elected to govern. What is not sometimes understood is the degree of involvement which modern governments have in the direct creation of wealth. The information which is contained in this Budget Paper shows some of the major ways in which Manitoba's Government assists in the creation of opportunities for individuals and organizations, and ensures access for all to our many vital services.

People and Programs
Services to Manitobans


Services for Children and Youth 19%
Employment and Economic Opportunities 31%
Services for All Manitobans 25%
Focussed Programs 25%

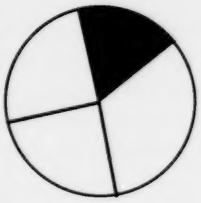
Source: Manitoba Department of Finance

People and Programs — Services to Manitobans answers the question, "How do we serve our children, support employment and economic opportunity, provide services for all Manitobans' and focus programs for particular needs?" The Paper takes a unique approach, reviewing the overall impacts of Government-directed expenditure upon the lives, the work and the leisure of all Manitobans.

Because of this unique approach, specific services are not directly reconcilable with formal Expenditure Estimate categories. However, in aggregate, the expenditures noted in the four groupings are in accord with the overall expenditure of Government and of its two major public utilities. Capital expenditure is examined and depicted separately.

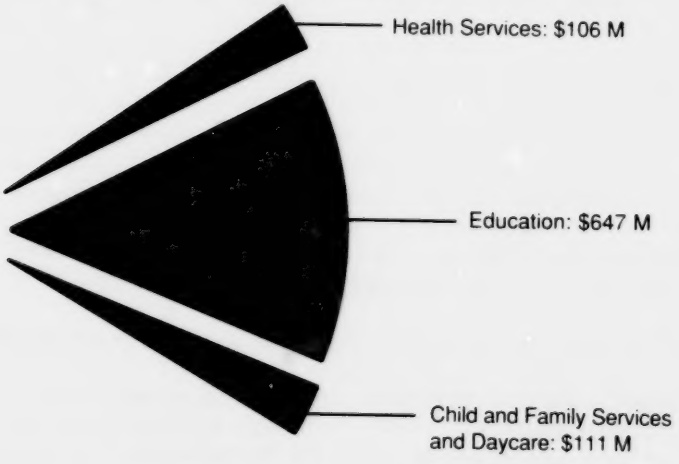
OUR CHILDREN...OUR YOUTH...OUR FUTURE

Manitoba's children are the focus of a great deal of emotional, intellectual and material investment, through the efforts of their families, their community associations, and their government. The provision of prenatal and infant care, child care, primary, secondary and higher education and recreation services, together demand over 19% of all provincial program expenditure and directly benefit all children. Child and Family Service Agencies provide assistance to families or children with special needs or who are experiencing stress. Similar services exist for those experiencing difficulty in the education system. Although these services are found in many different departments, they all focus on our children, our youth and our future.



Services for Children and Youth: $864 M

Serving Manitoba's Children and Youth



Source: Manitoba Department of Finance

Healthy Children -- Healthy Adults

Manitoba's Maternal and Child Health Programs promote the best possible health for both mothers and their babies. Through close co-operation among health professionals, and by focussing on prenatal health and nutrition, Manitobans have reduced the death rate among newborn children from 20/1,000 in 1972 to 9.5/1,000 in 1985.

Through the Early Discharge Program, mothers who give birth without complications are now able to return home with their child after only 48 hours in hospital. Follow-up support comes from visiting nurses and others where necessary. This Program helps to reduce the chance of infections during hospitalization, and enhances the developing relationship between the family and the new baby, as well as reducing costs.

When the child reaches three, an assessment may be done by regional public health nurses to provide a picture of development and to pick up any signs of problem areas. It is much easier to address such problems as hearing or vision impairment if they are caught before the child reaches school age.

Dental health is a crucial element in overall health status. Thus, it makes sense to provide early dental care to as many children as possible. Over 51,000 Manitoba children outside of Brandon and Winnipeg received dental services through the Children's Dental Program in 1986. Dental Health Services also care for handicapped children in treatment centres and at preschool facilities, and oversee the maintenance of preventive treatment of our water supply.

Child Care and Development

Manitoba's province-wide, community-based child care system is the most highly developed in Canada, with almost 15,000 spaces available at the present time. Yet, there remains much to be done, and plans are actively under way to add additional spaces in 1987/88, and to take further measures to strengthen the staffing of our daycare centres.

Child care is provided through a variety of mechanisms:

- infant care	800 spaces
- full-time daycare	6,007 spaces
- nursery schools	4,411 spaces
- school age care	2,527 spaces
- family daycare	1,195 spaces

Ninety per cent of the total spaces are located in non-profit centres or in family homes.

Provincial operating grants of $11.4 million will be provided in 1987/88 for building or renovating centres and for meeting special needs of infants or handicapped children. The Province also shares the per diem costs of caring for children, through parent subsidies of $16 million, depending upon each family's income and ability to pay.

Manitoba has chosen to priorize voluntary, non-profit centres both to encourage parent involvement, and because of clear data which suggests that non-profit centres provide higher quality care. Recent reports[1] provide evidence of the advantages which voluntary centres offer both children and their families.

Education Services

Our education system clearly dramatizes the links between economic and social development. Investment in learning which balances the acquisition of skills with social development has paid rich dividends to society as a whole as well as to individuals and families. Manitoba offers a high standard in all areas of education. Nowhere is this clearer than in the choice of over 1,600 families and individuals who have come to Manitoba to pursue their post-secondary education. They contribute both a deep commitment to learning and a rich cultural diversity to our overall student population.

Public School Support

Manitoba's commitment to public school education takes a variety of forms, but the most obvious is through the provision of grants to locally elected school boards. Between 1981/82 and 1987/88, this support has increased by over 50%, while per-pupil support has increased even more, growing by 58%. This year, $647 million will be provided to support public education. The equalization component of the grants program responds to rural divisions' lower capacity to raise tax revenue, ensuring relative equity in per-pupil funding support.

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[1] "An Exploratory Review of Selected Issues in For-Profit versus Not-for-Profit Child Care," SPR Associates Inc., October 1986 (federally commissioned study); and

Minister of Community Services Submission to the Special Parliamentary Committee on Child Care, June 1986.

Schools have responded to parents' requests for French, Heritage and other Language Programs, so that now over 119,000 Manitoba children are enrolled in a broad range of such classes. Increased efforts are being made to support the integration of children with special needs into regular school settings, often with extra support staff and technical devices. Unique programs which focus on groups such as new Canadians, inner city children, and children living in northern Manitoba have been established.

High school programs are now under active review through a working group of educators, parents and students themselves, which will report to the Minister of Education. Our high schools are offering an increasingly wide range of programs in both the academic and technical streams, ranging from the South Winnipeg Technical Centre to university credits and international baccalaureate courses.

Recreation Services

While all age groups use Manitoba's recreation facilities, the most frequent users are young people. Many of the activities which they enjoy are supported through volunteers and community or municipally based programs. Coaching clinics and the administration of amateur sports groups comes through the Manitoba Sports Federation, which is one of the major recipients of provincial lotteries revenue. Capital grants for facilities, especially in rural and northern Manitoba, make it possible for smaller centres to enjoy many of the same recreational opportunities as their urban neighbours.

Services for Children with Special Needs

Sometimes children, young adults and their families experience severe problems with relationships. In many cases, these can be resolved with help from school or neighbourhood resources, but in some instances, formal assistance is needed from Child and Family Service Agencies. Manitoba has an extensive network of these community-based Agencies, serving almost all areas of the province, except the area north of Riding Mountain National Park which is served by provincial regional services. Throughout the province, Native Agencies now meet the needs of all reserve residents, in a variety of locations across Manitoba.

Services ranging from informal preventive programs to formal intervention in cases of child abuse are provided through a network of approximately 85 community offices in urban and rural areas. More than 3,500 children and 6,840 families received support from these Agencies in 1986.

Young people also have mental health needs which can usually be met by community- or school-based resources. However, a number of children and adolescents have more severe needs and require help through such resources as the Manitoba Adolescent Treatment Centre, St. Boniface Hospital Adolescent Psychiatric Department, Children's Hospital Psychiatry, the Child Guidance Clinic and the Brandon Mental Health Centre Adolescent Program which are provided on an in-patient or out-patient basis. These urban resources provided services to approximately 1,900 adolescents in 1986. In rural and northern Manitoba, children's psychiatric services provided assessment and treatment to 1,100 clients. In total, approximately 3,000 young Manitobans were provided with psychiatric services in 1986.

In addition to the formal services outlined above, there are a large number of agencies which receive grants or payments from the Provincial Government for services for young people. Agencies such as Big Sisters match high-needs children with caring adults; Rossbrook House and Winnipeg Boys and Girls Clubs meet the needs of many youth in downtown Winnipeg. The Society for Manitobans with Disabilities, Marymound, Macdonald Youth Services and Children's Home of Winnipeg work with many children and their families through programs located in various parts of Manitoba.

Summary

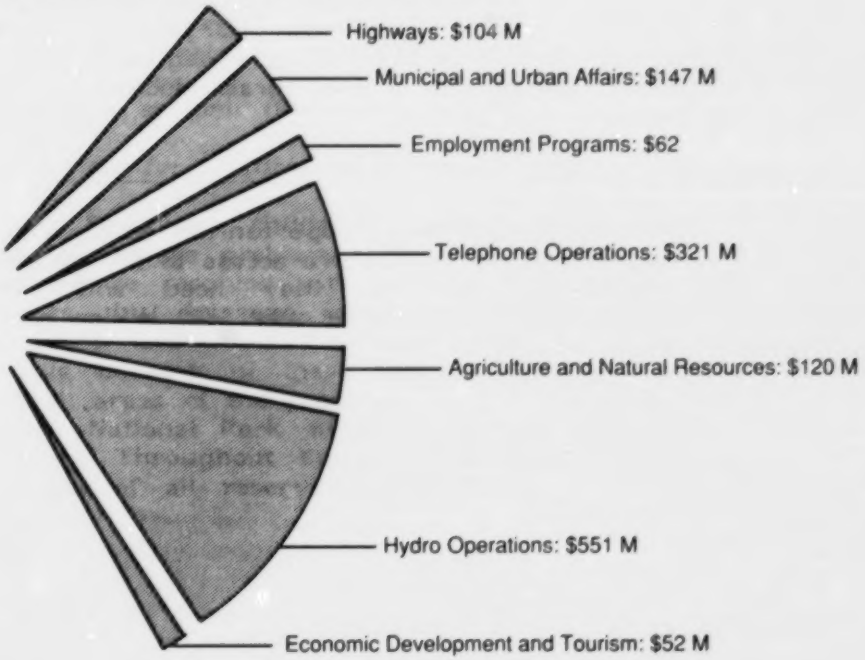
Manitoba's children enjoy opportunities to develop their skills and unique identities, and secure access to the educational, health and recreational services they need and deserve. Together, these services will require over $860 million or 18% of our expenditure in 1987/88.

OPPORTUNITY FOR ALL MANITOBANS

Manitobans are creative and competitive. They have led the world in such diverse fields as long distance electrical transmission technology and in research in blood disorders, particularly those relating to Rh factors. Tractors from Versatile are widely exported and lead the world in four-wheel drive technology. Engineers from a variety of our major consulting firms are involved in Asia, Africa and other parts of the world on projects ranging from university planning to building direct current transmission lines. And, the results of all these efforts include jobs for Manitobans.

Employment and Economic Opportunities: $1357 M

Employment and Economic Opportunities for Manitobans


Highways: $104 M
Municipal and Urban Affairs: $147 M
Employment Programs: $62
Telephone Operations: $321 M
Agriculture and Natural Resources: $120 M
Hydro Operations: $551 M
Economic Development and Tourism: $52 M

Source: Manitoba Department of Finance

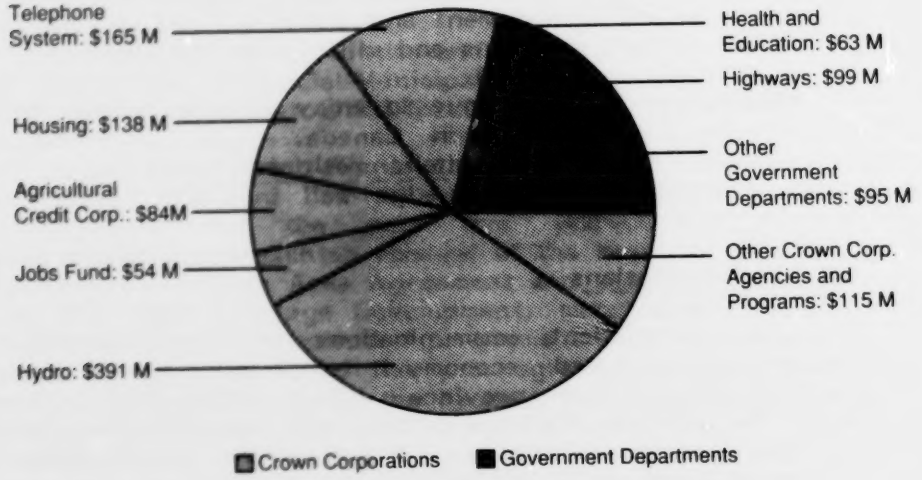
As a partner in fostering economic development, the Provincial Government must be responsive to local economic strengths and interests, and attuned to new opportunities from outside our boundaries. Many departments work together to foster this development, often in conjunction with business and labour organizations.

Creating the Infrastructure for Development

Manitobans are favoured with abundant supplies of hydro-electric energy, an efficient public telephone system, and a network of air and land transportation systems which make our province an attractive site for industry, agriculture and business. Manitoba has had the strongest private and public sector capital investment growth in our recent history. Plans for 1987/88 call for public sector investment of $1,204 million by Crown Corporations, Agencies and Government Departments.

Investing for the Future

Planned Major Capital Investments by Government and Crown Corporations in Manitoba, 1987/88



Source: Manitoba Department of Finance

Hydro-electric Development

Leading the way in capital investment is Manitoba Hydro's $1.73 billion commitment to the Limestone Generating Station. Limestone ensures adequate future supplies of hydro power for Manitobans, and will secure increased revenue from export sales. It will reach its peak of construction activity during the next eight-month period when the work force will total approximately 1,700 persons. Limestone will provide an estimated 6,000 direct person-years of employment at the construction site. Spinoff employment is estimated at about 13,000 person-years.

At the same time, negotiations are continuing with Canadian and U.S. utilities to extend further sales of electricity, and to ensure timely completion of transmission lines.

A hydro transmission line will soon be completed to Churchill, and will result in a reduction in that area's energy costs. This will benefit both residents and the Port of Churchill, where diesel-electric rates have been one of the factors leading to high Port operating costs.

Attention is often focussed only on the construction activities of Manitoba Hydro. However, Hydro is also one of the province's biggest employers, and purchases a wide range of goods and services. With a total operating expense budget for 1986/87 of $551.7 million, and over 4,000 staff, Hydro is a catalyst for economic development and makes a vital contribution to the economies of cities, towns and villages across Manitoba.

Manitobans will continue to enjoy electric energy costs which are among the lowest in Canada. Our resources of untapped power will give Manitoba residents, businesses and industries a strong competitive edge well into the twenty-first century.

Communications

Rapid, efficient communications are the lifeblood of today's information-based economy. Through the Manitoba Telephone System, our province enjoys efficient, low-cost services. On average, Manitoba's 1986 rates were 10% lower than rates in the next lowest province, and were one-half of those in the highest cost province, British Columbia.

Manitoba's rate structure ensures that rural customers face reasonable telephone costs including in-province long distance charges which recognize their relatively high need for such calls. Manitoba has taken a strong stand against federal

proposals for changes which would sharply increase long distance rates for many rural customers. These proposals would also force residential rates to rise significantly, as has happened in neighbouring American states following similar changes.

With over 5,000 employees located in every part of the province, and a total operating expense budget in 1986/87 of $321.4 million, MTS plays an important role in the local economies of all regions of Manitoba.

Supporting Municipalities

The Department of Municipal Affairs provides an array of programs and planning assistance totalling over $38 million per year to Manitoba's 201 municipal governments. Municipalities require support for the development of their service infrastructure, particularly in regard to water supplies and sewage treatment. Through the Manitoba Water Services Board, $10 million in improvements were made possible during 1986. Utility co-operatives have been formed in some rural areas to enable over 2,000 Manitobans to receive sewer and water services for their farms and homes.

In Northern Manitoba, municipalities receive many support services through the Department of Northern Affairs, which provides $7.4 million for development of costly water and sewer systems and other important services.

All cities, towns and municipalities receive support through the Provincial-Municipal Tax Sharing Program. Over $39 million will be provided through this Program in 1987/88.

Revitalizing Winnipeg

During the past five years, Winnipeggers have witnessed a far-reaching renewal of the heart of our capital city. Through the Core Area Agreement and associated programs such as the North Portage Development, more than $650 million has been invested in people and programs to revitalize the inner city. Very shortly, a second five-year agreement will be completed in detail, and will continue the process of focussing investment and social development strategies on the core area. In the new agreement, the CNR East Yards will play a prominent role, and the historic junction of the Red and Assiniboine Rivers will once again become accessible to Manitobans and visitors.

The confidence and vision shown by public sector investment has been amply repaid as the Core Area Initiative has gained momentum. Private capital investment is now matching that of the public sector. Employment training programs have benefited over 5,100 core area residents, while 6,200 person-years of employment have been created through construction activities. Three thousand permanent jobs are expected to result from activity related to the North Portage Development.

The City of Winnipeg receives over $85 million per year in capital and operating grants for provision of transportation subsidies, social services, and general purposes. Provincial Departments involved include Urban Affairs, Employment Services and Economic Security, Health, Culture, Heritage and Recreation, and Natural Resources.

Transportation

Manitoba's 19,180 kilometres of provincial trunk highways and roads, and our 31 airports are developed and maintained by the Department of Highways and Transportation in co-operation with municipal and federal authorities. The ongoing maintenance of these facilities, as well as new construction will require an expenditure of more than $143 million in 1987/88. These dollars go largely in the form of either wages to Manitobans, or purchases of Manitoba-sourced goods and services. More than 4,400 person-years of employment throughout the province are created by these construction and maintenance activities.

An extensive winter road system enables northern residents to reduce sharply the shipping costs on a wide range of goods. Thousands of tonnes of supplies are being carried over 1,200 kilometres of winter roads to 15 isolated communities in 1987.

The safety and licensing of Manitoba's 606,800 drivers and 800,000 vehicles is overseen by the Motor Vehicle Licencing Branch. The Manitoba Public Insurance Corporation insures both drivers and Manitoba vehicles. Manitoba's vehicle insurance is also the least expensive in Canada, with average rates in 1987 for a typical family sedan of one-half to two-thirds the rates for the same car in Ontario or Alberta.

In combination, Manitoba's communications, hydro, transportation and municipal infrastructure provides an efficient network of services for our commercial enterprises.

Creating a Climate for Business Development

Economic development strategies in Manitoba are based on making the best use of our location, skilled work force, natural resources, and favourable energy and other costs. The Departments of Industry, Trade and Technology, Labour, Northern Affairs, Business Development and Tourism, and Co-operative Development work together with the private and public sectors to deliver a range of programs and policies to foster economic development. Some measure of their overall effectiveness can be gauged from the 13,000 new jobs, 60% of them full-time, which were created in the private sector in 1986. Further employment growth is expected for 1987.

Manitoba's Small Business Development Branch and the Department of Industry, Trade and Technology work with companies in and outside of Manitoba to encourage location or expansion of their operations in Manitoba. The same Departments assist established firms to expand their external trade with other nations through trade missions and displays, and active promotion of Manitoba in film and print media.

Manitoba's small business sector has played a central role in our province's strong economic recovery and expansion. More than 5,000 new businesses with 20 or fewer employees have been started in the last three years. Much of this entrepreneurial leadership comes from Manitoba's women. Data from a recent study suggests that women start two-thirds of all new businesses, and own half of all Canadian small businesses.

The Communities Economic Development Fund (CEDF) was created in the early 1970s to assist economically disadvantaged communities, particularly in the North. The Fund acts as a lender to northern businesses. For example, a sporting goods store in Thompson and a laundromat in Norway House are now successfully operating with recent help from CEDF.

During the most recent year, 156 small business projects or major development agreements were signed, involving a total of 1,700 jobs. Twelve agreements were signed with the Venture Capital Program creating a total of 356 jobs. Since its inception, the Venture Capital Program has received $4.95 million from Provincial sources to establish 67 Venture Capital Corporations, and to create or maintain 1,193 jobs.

The Manitoba Jobs Fund has provided a valuable catalyst to both job creation and training. By co-ordinating public and private initiatives, thousands of jobs have been created, and worthwhile community projects have been completed.

In 1987/88, more than 25 projects will be continued or initiated, including the highly successful Limestone Training and Employment Agency.

Under the new Business-Community CHEC Loan Program, the Province will loan businesses and community organizations up to 80 per cent of the cost of a retrofit project, or $32,000, whichever is less, at the prevailing Provincial Government interest rate. To qualify for a loan, the potential reduction in energy consumption must be at least 20 per cent.

Manitoba's Energy Bus has visited over 1,200 commercial, industrial and public buildings during the past six years. Identified potential savings from this Program have exceeded $18.5 million annually, with some businesses achieving yearly savings as high as 28% of their energy bill.

In 1986/87, federal-provincial economic and regional development agreements involving more than $100 million in federal resources added to Manitoba's economic infrastructure. These agreements included programs such as the Core Area Initiative in Winnipeg and the Churchill Development Agreement.

Manufacturing

In order to compete more effectively in both domestic and international markets, Manitoba's manufacturing sector has had to meet the challenges of achieving greater efficiencies from its capital, management and work force. Adoption of new technology and better utilization of existing resources has resulted in increases in productivity throughout the manufacturing sector, although industries linked to the besieged agricultural sector continue to suffer from weak market demand.

Wood, furniture and fixtures has been our strongest growing manufacturing industry, reflecting the expansion in construction over the past four years. A Development Agreement concluded under the auspices of the Jobs Fund will allow Palliser Furniture Ltd. to complete a $14 million expansion of its Winnipeg operations, creating more than 340 new jobs. This Winnipeg company is now the largest in its field in Canada.

Skill Development for Manitobans

Economic development requires a creative combination of skilled workers and business opportunities. The Provincial Government, in collaboration with other governments and the private sector, works both to ensure labour force training and adjustment and to develop opportunities for new initiatives.

Manitobans in record numbers are seeking opportunities to acquire new skills through a wide variety of provincial and federal programs. There are over 46,000 people engaged in part-time or evening courses leading to degrees or certificates in our community colleges and universities. At the same time, 15 different programs offer increased access to professional careers primarily to northern and Native people at the Universities of Brandon and Manitoba. For example, the Brandon University Northern Teacher Education Program (BUNTEP) currently enrols 112 northern and Native students in a four-year degree course. Much of the instruction takes place on reserves. In Winnipeg, the Inner City Social Work Program has already produced its first 15 graduates from among its target population of disadvantaged core area residents.

The new Job Training for Tomorrow Program promotes on-the-job training and skill development for Manitobans. More than $10 million will be allocated to this initiative to allow workers to adapt to new technology and upgrade specific job-related skills.

Unique training approaches such as those used in the South Winnipeg Technical Centre are based upon the competencies of students rather than upon a rigid curriculum. Thus, a student with partial skills in welding does not have to repeat courses in skills he/she already has, but would learn only those skills needed to complete certification.

The New Careers Program and the Core Area Labour Training Program provide opportunities to disadvantaged members of various groups to gain career-oriented skills and to be assured that a job is waiting after they have finished training. For example, New Careers has recently trained 35 Native child care workers from across Manitoba who are now employed in long-term, stable jobs.

Specific skill development is supported through 20 provincially run centres ranging from the Selkirk Training Plant to the Stevenson Aviation Technical Training Centre. These centres, which also include apprenticeship training, served over 19,000 Manitobans in 1986.

In combination with federal initiatives, such programs allow many Manitobans to adjust to changing labour market needs, to expand their existing skills and to seek careers which traditionally have been unavailable to them. The Government of Manitoba provided over $62 million in 1986/87 to this wide range of programs, including programs under the Jobs Fund.

Supporting Manitoba's Farming Community

Farming in Manitoba is a $2.2 billion business involving about 36,600 individual farmers. While wheat is the biggest crop, our agricultural sector is more diversified than that of provinces to the west, and hence has been somewhat less hard hit by the current grain price war between the United States and European countries. In times of falling incomes, federal and provincial policies of stabilization and support become critical to the survival of many farmers.

Taxation and Farming

The Province has acted to lessen significantly the tax burden on farmers. The vast majority of farm businesses will now be exempt from the Health and Post-Secondary Education Levy, because only the very largest corporate farmers have wage bills in excess of $100,000. Virtually all items used for farming purposes are already exempt from the Retail Sales Tax, so there will be little impact upon farmers from rate changes. Exemptions from the Corporation Capital Tax and from fuel taxes mean that virtually all inputs to agriculture are exempt from provincial taxation.

Farm buildings, including the farm home, are presently exempt from property taxation altogether. For school purposes, farm land is taxed at the residential rate rather than at the commercial rate. In 1987/88, the remaining burden of school taxes on our farmers will be further reduced by $12 million, totally eliminating school taxes for 25,000 Manitoba farmers. With this new program, property tax relief provided by the Province to active farmers will exceed $27 million.

Low-income farm families with children receive enhanced support through special provisions of the Child Related Income Support Program (CRISP). During the first year of this Program's operation, these extended benefits will provide about $1.2 million to an estimated 1,250 families.

Programs to Support Farming

New federal estimates indicate that as many as 20% of all prairie grain farmers will face severe economic difficulties in 1987/88. Recent suggestions from the Canadian Wheat Board concerning further sharp reductions in grain prices underscore this concern. The newly proclaimed Manitoba Family Farm Protection Act will play a vital role in ensuring that all possible resources are brought to bear before farm mortgage foreclosures occur. Lenders who intend to foreclose must apply to the court

and notify the Manitoba Mediation Board within 30 days. The Board then has 90 days to analyse a case and prepare a report. The Province has established a $6.5 million fund to assist in the formulation of mediated settlements between farmers and creditors.

The Manitoba Agricultural Credit Corporation (MACC) extended over $69 million in various loan categories in 1986. About 86% of MACC's clients are young farmers. The FarmStart Program, targeted directly at the intergenerational transfer of farms, has now begun operation. FarmStart will guarantee loans at a rate 30% lower than MACC's rate on direct loans. Recognizing that many farmers must also have part-time jobs to augment their farm income, MACC has begun to extend credit to this formerly ineligible group.

Crop insurance, in which governments and producers share the costs, is a vital source of protection for most farmers. Income insurance has helped to stabilize our beef and hog industries through periods of low and fluctuating prices. These two programs directly support both farmers and Manitoba's slaughter industry.

The Department of Agriculture works directly with thousands of farmers every year to assist them in developing management skills and responding to new market opportunities. Research undertaken by the Department or through contracts helps to develop new feed practices and to make better use of pasture lands. Specialty crops are increasingly attractive as an alternative to traditional varieties which are under market pressure. For example, new crop investigation has led to the use of particular varieties of soybean suitable for use in Japan.

Potato farming was given a major boost during 1986 with the completion of an expansion agreement between Carnation Foods Ltd. of Carberry and the Province. This agreement will not only lead to the creation of 50 long-term jobs, but will allow increases of about 30% in the acreage sown to potatoes, with an estimated annual crop value of $17.5 million.

Natural Resources

Commercial Fishing

An innovation in commercial fisheries management was implemented in 1986 after extensive consultation with fishermen and a trial pilot project. The Quota Entitlement System will promote the economic rationalization of individual fishing operations by allowing the controlled transfer and sale of quotas,

thereby allowing retiring fishermen to recover their equity. Lake Winnipeg is the first fishery in North America to adopt this progressive quota management system.

Sport Fishing

Manitoba's commercial sport fishing industry will see an innovative approach in the development of two high-quality lodges being constructed in 1987 in northern Manitoba. Nearby northern communities will be the majority owners of the $1.5 million to $2 million lodges at Knee Lake and Big Sand Lake, which will be managed under a long-term contract by experienced private developers. Local ownership will help ensure long-term local economic benefits -- each will create at least 30 seasonal jobs, and the long-term involvement of experienced management should help make the lodges a financial success.

Wild Rice

A major new source of wild rice has been developed in the areas of The Pas and Flin Flon, thanks in part to the test seeding, lake assessment and extension services provided by the Wild Rice Program delivered by Manitoba Natural Resources. In 1986, 116,000 pounds of wild rice were produced in this area, more than double the previous year's crop. The high volume of producer seeding is expected to result in a further doubling of production in 1987. Wild rice provides an important source of seasonal income to the approximately 100 licensed harvesters in this area.

Forestry

A major expansion of Manitoba's Forest Renewal Program has been achieved through the co-operative efforts of the forest industry, the Province and the federal government. A five-year Canada-Manitoba Forest Renewal Agreement provides for the spending of $27 million to ensure the future supply of timber necessary to support further industry growth. The completion of the Clearwater Nursery near The Pas, and the expansion of the Pineland Nursery at Hadashville, have greatly increased seedling production, an essential part of the expanded Forest Renewal Program.

The Province's Dutch Elm Disease Program has been successful in minimizing the number of diseased elms in urban centres with control programs. Forty communities have entered into agreements to allow their disease control and management costs to be cost-shared by the Province.

Summary

The combination of our diversified economy, favourable resource mix and well-developed utility and transportation infrastructure gives our province strong competitive advantages. Co-operation among labour, business and government has resulted in higher investment, employment and wage levels, bringing benefits to all Manitobans.

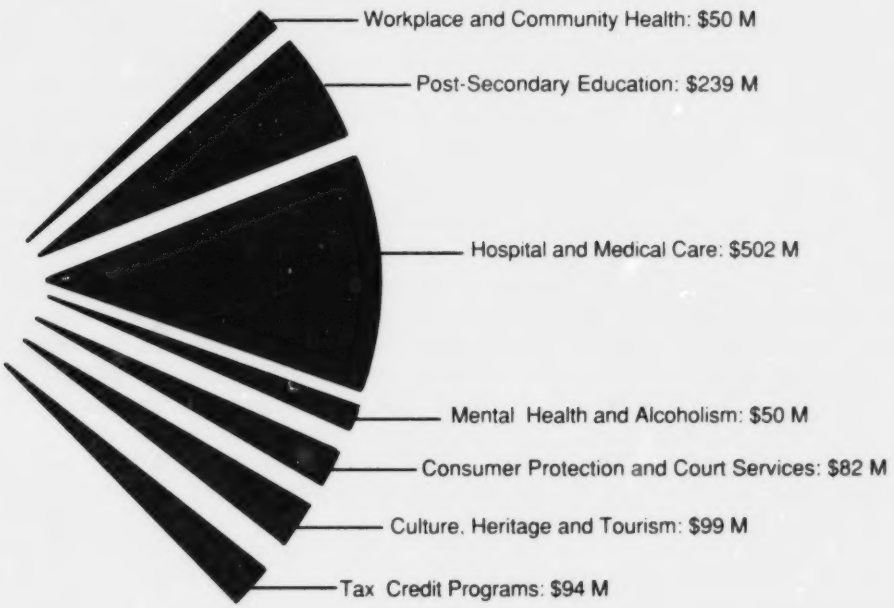
Manitobans have created over 13,000 new jobs in 1986, the best record since 1974. Forecasts are that this strong performance will continue, with a further decline in Manitoba's unemployment rate over the next 12 months. By working together, we can reduce this still unacceptable rate of unemployment by creating more long-term skilled jobs for Manitobans.

SERVICES FOR ALL MANITOBANS

Many factors combine to create quality of life. Accessible, affordable health care, high-quality education programs, stable employment, reasonable housing and utility costs, a clean environment and access to recreation and cultural facilities are high on everyone's list when they are choosing where to live and invest time, energy and resources. And the evidence shows that Manitoba is indeed a good place to choose.

Services for
All Manitobans:
$1116 M

Services for All Manitobans


Workplace and Community Health: $50 M
Post-Secondary Education: $239 M
Hospital and Medical Care: $502 M
Mental Health and Alcoholism: $50 M
Consumer Protection and Court Services: $82 M
Culture, Heritage and Tourism: $99 M
Tax Credit Programs: $94 M

Source: Manitoba Department of Finance

Healthy People in a Healthy Environment

The foundations of any health system are based on public health and environmental measures promoting wellness, as well as preventing illness. First of all, this means protecting our air and water resources from pollution. One important focus of our efforts is to safeguard our supplies of clean water, especially in the North where diseases related to water pollution still occur. The Clean Environment Commission held 16 hearings in 1986 to review standards affecting ground water, industrial discharges and sewage treatment. Hazardous wastes and their handling and disposal are the subject of other hearings which will lead to a Provincial policy framework and to the establishment of a treatment facility to dispose of such wastes.

Ensuring health and safety in the workplace can sharply reduce illness and accidents. A comprehensive approach to safety involves research on what accidents and illnesses are actually occurring, as well as ensuring that standards are maintained and that safer technology is put into place.

For example, in Flin Flon, some of the most modern technology in the world is in use in the mines and milling operations. Ore is now recovered through vertical drilling and blasting downwards into tunnels. The drilling is from above, greatly reducing dust and the threat of accidents from rock falls. Operators are able to remove ore using remote control vehicles, while remaining a safe distance away from both dust and shifting rock. In some mines, underground vehicles have closed cabs featuring air filtration and noise reduction. These measures both improve safety and lead to greater productivity, which in turn has allowed our mines to survive the recent sharp downturn in mineral prices.

Health Promotion

As well as promoting environmental health and workplace safety, Manitoba uses public health strategies to maintain high levels of immunization for children and other vulnerable populations. For example, vaccination for measles is now compulsory for children prior to school enrolment, ensuring that measles epidemics will soon be a thing of the past.

Reproductive health care information is distributed widely by public health staff and through innovative services such as the "Facts of Life" line which received over 14,000 calls from Manitoba youths and parents in 1986.

Manitobans are moving on their own to create smoke-free environments. Committees of workers in many areas of industry have developed policies to accommodate smokers while removing second-hand smoke from actual worksites. Programs such as "Alive," designed to reduce alcohol-related accidents, receive strong public and Provincial support. Manitobans in our health care and other sectors have worked quietly and carefully to put into place approaches to deal safely, effectively and compassionately with the needs of victims of AIDS before this disease becomes a serious problem in our province.

Health Care for All Manitobans

Over 90% of Manitobans use specific health care services every year. Most only see a doctor or visit a health clinic, while others enter a hospital for treatment. Our present system is characterized by an abundance of doctors in urban Manitoba, with some shortages of specialists particularly in smaller and rural communities. One-third of Manitoba's total expenditure is needed to support our health system, providing all Manitobans with high-quality care and employment to over 49,000 skilled workers.

Modern health care focusses on helping patients to return as quickly as possible to normal activities and to their homes. Surgery is now frequently done on a "not-for-admission" basis, even when a general anesthetic is used. Day hospitals are being developed to care for people with chronic conditions which formerly used to result in hospitalization. Increasing emphasis is placed on carefully planning discharges so that follow-up supports are in place when the person returns home.

Acute-care hospitals are the largest component of health costs. Working groups of board members, professionals and provincial staff are developing policies and procedures to combine effective patient care with maximum efficiency. For example, studies revealed that in Brandon, there were more admissions per capita to hospital than elsewhere in Manitoba. With this information, the Brandon Hospital Board has been able to work with staff to reduce the required number of beds, and at the same time, to reduce the waiting list for admission. Strategies like these will ensure that Manitobans will continue to have accessible, affordable health care in the decades to come.

Personal care homes have been built throughout our province. With over 8,323 beds and ongoing expansion, this has been one of the most rapidly growing areas of health care in the past 10 years. High standards are expected in all homes, and

regular inspection and accreditation takes place. Slowly, older homes are being closed when new centres become available. In the last five years, 665 new spaces have been built, while 633 more were upgraded or replaced. During the next five years, 572 additional beds will be provided, and 704 will be upgraded or replaced. Because proportionally Manitoba's population has 18% more seniors than Canada as a whole, expansion of both residential and home care services is a high priority for our province.

A major effort is being made to strengthen community mental health services, while reducing somewhat our dependency on larger mental hospitals. Our goal is to reach a balance where about half of our resources are deployed for community care, with the balance remaining for the care of chronically ill people in major centres.

In 1987/88, Manitoba's health services will cost about $1,220 per person. All our citizens are covered, and no regressive premiums or fees are levied. By working closely with all sectors of the health care system, Government will ensure that Manitobans continue to receive good value as well as good care for our health dollars.

Affordable Housing

Manitobans enjoy lower costs of housing and utilities than in many parts of Canada. In part, these moderate costs stem from our economic conditions of modest, steady growth. Public policy has also ensured adequate supplies of serviced land in most areas of the province, while other programs have stimulated the supply of affordable housing during periods of low vacancy. Housing construction has reached consistent new levels during the past several years, with 7,700 units built in 1986, with a further 7,200 expected for 1987, and possibly more if mortgage rates remain favourable. Rent regulations ensure that over 100,000 households are protected by the annual rent increase guideline.

Through such programs as the Core Area Initiative in Winnipeg and Main Street Manitoba, the central districts of our cities and towns have been made more attractive places in which to live and invest. For example, for the first time in years, market housing is now being built in the heart of Winnipeg. These 1,900 apartments and 200 condominiums will be home to a broad cross section of income groups, bringing new vitality to our downtown area.

Programs have been developed to encourage upgrading of existing housing stock, enabling approximately 3,900 Manitobans to renovate and upgrade homes and apartments during 1986. Over 26,000 Manitobans work in our varied construction industry.

Energy conservation for both homes and businesses has been encouraged through the Cut Home Energy Costs (CHEC) Program. Over 8,000 residences have been visited by technicians to provide energy assessments. Almost 50,000 Manitobans have taken out CHEC loans totalling $38 million to upgrade their homes since the Program's inception. In 1986, the loan limits were more than doubled to $2,500, while the interest rate was lowered to 8%.

In combination, Manitoba's shelter programs ensure that our citizens will continue to enjoy safe, efficient and affordable housing in the years to come.

Post-Secondary Education

In our rapidly changing world, people know that learning never stops. We change careers, develop skills and learn to use new technology throughout our lifetimes. Although education for young Manitobans remains the primary focus of much of our education system, increasing emphasis is now placed on retraining and adult skill development. The Post-Secondary, Adult and Continuing Education Division of the Department of Education administers programs in over 100 centres in Manitoba, and makes courses available in remote areas. Many full-time workers are also part-time students at either university or college levels. Over 46,000 Manitobans are pursuing degrees and certificates through part-time studies at the present time. Nor is it a surprise to find senior citizens at university; last year an estimated 2,000 seniors attended our universities. Education is also a major employer, generating 33,000 jobs and attracting investment and economic development to Manitoba.

Manitoba's three universities and three community colleges are home to over 33,500 full-time students from across Canada and around the world. Today's student may be 18 or 68, fully employed or at full-time studies. Our universities and colleges are adapting their scheduling, teaching hours and approaches in recognition of these changes.

Provincial operating support to our universities has grown year by year, increasing some 47% between 1981/82 and 1987/88.

Access to higher education has remained a key concern of both the Provincial Government and our post-secondary education centres. Student aid, bursary funds, and the provision of summer employment are also important means of supporting students' ability to continue their education. The Student Aid Branch has provided assistance to 20,000 Manitobans this year. Employment is provided every summer to students across the province through such programs as Careerstart, S.T.E.P. and the Northern Youth Corps. Each year young Manitobans benefit from these programs, gain valuable experience and save for their next school year.

Manitobans may be surprised to learn that some of our innovative programs have won awards, including the Brandon University Program for the Education of Native Teachers (PENT) which has allowed many Native people to become fully qualified teachers.[2] For the first time, schools in many Native communities have a significant proportion of Native staff acting as both teachers and models for their students.

Universities maintain extensive capital facilities which have been expanded steadily over the past few years. The Music Building at Brandon University, the Field House at the University of Winnipeg, and the Earth Sciences Building at the University of Manitoba are important examples of our ongoing commitment to developing first-class facilities for higher education. At the same time, there has been a need to place university capital planning and maintenance on a multi-year footing. To this end, the Manitoba Fund for University Development, a five-year capital program of up to $20 million has recently been made available by the Province.

Our community colleges are moving into more extensive partnerships with employers, unions and the voluntary sector to provide specific programs appropriate to the needs of specific groups. Strong emphasis is being placed upon northern access programs at all levels.

There is encouraging evidence from national studies that Manitoba community college graduates fare better than the national average in finding work directly related to their field of study and in satisfaction with their training.[3] For example, Manitoba graduates were shown to enjoy somewhat higher employment rates

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[2]Distinguished Teacher Education Program Award, U.S.A. and Canada, 1984.

[3]Statistics Canada, National Graduates Survey, 1984.

than their national counterparts. Since the date of the study, our province's youth unemployment rates have further declined to almost 3% below national averages.

Affirmative Action Programs

Manitoba has established a wide range of programs which focus on groups who by reason of their gender, race or physical limitations have experienced disadvantages in the past. Disadvantage may come in the form of subtle or outright discrimination in housing, unconscious bias in job descriptions, qualifications or hiring procedures, in stereotyping in literature or advertising or in countless other forms. Affirmative Action seeks to raise consciousness about bias, and to ensure that everyone is fairly treated in their search for jobs or careers.

Affirmative Action hiring practices have been developed over the past several years to ensure that the public service more accurately reflects the make-up of our population. These practices actively promote career development for target groups of women, Native people, visible minorities, and those who are physically disabled. Increasing numbers of women have been hired for senior and middle management jobs. Native staff have been trained and hired for Limestone in record numbers, and are also securing employment with other branches of Government. Affirmative Action programs are now in place in every Government department, with the result that 38% of senior staff appointments in the Provincial civil service were from the target groups in 1986.

Pay Equity

Pay equity remains a major Provincial policy commitment and is being implemented in the public sector in an orderly, planned manner. In the Civil Service Commission, a joint worker-management committee is undertaking a review of job classifications as required by the Pay Equity Act. A similar process is beginning in co-operation with Crown Corporations, universities and the larger hospitals.

A Pay Equity Commissioner has been appointed and the Pay Equity Bureau has been established to monitor policy implementation and to assist the public and private sectors over the next few years. In the longer term, pay equity will have

beneficial impacts on retirement pension levels and on family security. The costs for the public sector are expected to be modest, with full implementation requiring about one per cent of current payroll every year over the next four years.

Protecting the Consumer

Historically, Manitobans have enjoyed lower-than-average costs of telephones, hydro, and car insurance, thanks to efficient, publicly operated services. Interprovincial comparisons show that Manitoba has among the lowest rates in Canada for all three of these vital utilities. Average home heating costs, in spite of our climate, are fourth lowest. Even with rate increases which have taken place this year, we will retain this favourable position. In fact, in 1986, the average family's annual total utility bill of $1,713 is only 63% of that of Ontario residents who pay $2,725. And Ontario has by no means the highest costs. Residents of the Maritime provinces pay more than $3,000 per year.

A number of citizen boards advise government on a broad array of marketing and consumer issues. The protection of consumer rights is an ongoing process. During Public Utility Board hearings in early 1987, the Province and some major consumer groups, including the Manitoba Society of Seniors, attempted to secure reductions in the cost of natural gas for residential customers. Other consumer protection programs are in place to ensure that fair practices are adhered to in warranty protection, contract law, and through orderly marketing of many foods and staples.

Tax Credit Programs

Manitoba's various tax credit programs will provide $235 million in tax relief in 1987/88, bringing benefits to virtually all Manitobans. Every renter or homeowner receives the basic Property Tax Credit of $325, while low-income families and seniors receive extended benefits related to their incomes. The Child Related Income Support Program provides $8 million to low-income families. Farmers and farm families receive Property Tax Credits, extended access to the Child Related Income Support Program and beginning this year will benefit from the Farm School Tax Assistance Program. With the addition of $12 million from this new Program in 1987/88, 25,000 individual farmers will be completely relieved of all school taxes.

The Manitoba Cost of Living Tax Credit Program has been significantly extended in 1987/88, almost doubling to a new total of $50 million, while the Pensioners' School Tax Assistance Program will increase by 14% to over $16 million.

Acting in combination, Manitoba's Tax Credit Programs provide a broad range of support to all Manitobans, while focussing particularly on low-income groups. They provide a progressive component of our overall taxation system.

Public Safety and Law Enforcement

Crime prevention will be given a clear focus with the creation of a Crime Prevention Centre in Manitoba. It is believed that this will be the first legislatively created centre of its kind in North America. It will provide a firm foundation to focus the many crime prevention initiatives currently under way or planned for the future. The Centre will be governed by a board of directors drawn from agencies already involved with the criminal justice system and from the community. Core funding will come from the Province, but other levels of government and the private sector will become active partners in program development.

The enforcement of all provincial and most federal laws is the responsibility of the Provincial Attorney General. The RCMP acts under contract with the Province to provide police protection in many areas of rural Manitoba. Through co-operation between police and crown attorneys, charges are laid and court hearings are held in the various judicial districts of Manitoba. Where necessary, persons who are charged with criminal offences are held in provincial facilities prior to their trial.

The recently announced Northern Justice Initiative will enable the training of northern Native people as local resource workers, and has been welcomed by both Native leaders and court officials alike.

Legal Aid services are provided to those who cannot afford to hire legal counsel. This service is cost-shared with the federal government and will require over $8.7 million in 1987/88.

Manitobans are entitled to compensation for injuries received during commission of a crime. In 1986/87, more than $1.2 million will be expended by the Criminal Injuries Compensation Board for this purpose.

In total, services provided through the Department of the Attorney General will require more than $75 million in 1986/87.

Culture, Heritage and Recreation

Across Canada, Manitoba is known for its rich cultural heritage and enthusiastic commitment to celebrating this gift. Lively plays by Manitoba authors, as well as performances of opera, symphony, theatre and ballet in the Centennial Concert Hall and the Manitoba Theatre Centre delight sell-out audiences every season. Smaller groups such as the Aurora Musicale and the Winnipeg Chamber Orchestra provide diverse programs for large audiences. Many productions are made available in rural and northern areas through travel grants to companies, while arts councils in most communities ensure that local artists and arts events are accessible in their centres.

Each year, Folklorama attracts a great number of people from near and far to sample food and entertainment from 39 nations and cultures. Over 67,000 passports to pavilions were sold in 1986. The Folk Arts Council of Winnipeg Inc. acts as an umbrella group to co-ordinate and produce this annual festival and to provide entertainment to many conventions and gatherings throughout the year in Winnipeg.

In 1986/87, the Manitoba Arts Council made $2.9 million in grants available to over 60 professional arts organizations, and awarded $755,000 to 200 individual artists.

Lottery activities in Manitoba generated over $65 million in 1985/86 for sport, arts and cultural organizations, multicultural activities, educational and social services, heritage activities and many other community endeavours.

Manitoba also possesses many important historical buildings. Most major communities now have heritage buildings designated for preservation, and in several there are "walking tours" for visitors. Over 140 museums display our history, ranging from the Agricultural Museum in Austin to the Western Canadian Aviation Museum in Winnipeg. Our history as a centre of railway transportation is reflected in the Urban Gallery of the Manitoba Museum of Man and Nature, as well as in the operation of the Prairie Dog Central, Canada's oldest operating steam locomotive.

Our province's 301 parks and 99 camping facilities with approximately 6,600 sites provide a rich variety of opportunities for Manitobans and visitors. From Falcon Lake to Baker's Narrows and the Peace Gardens to Hecla Island, campers can find accessible, well-developed facilities operated by private, community and provincial groups. Our northern areas remain an attractive destination, particularly to tourists from the United States.

Tourism and recreation facilities provide enjoyment for Manitobans, as well as over 18,000 jobs and $696 million for our provincial economy. In co-operation with industry groups and the federal government, the Province will continue to develop this resource for the benefit of all Manitobans.

Multiculturalism

Manitoba's social fabric has been enriched by the many ethnocultural communities who participate in all aspects of this province's social, cultural and economic life. The Ethnocultural Heritage Support Program assists 220 community groups to maintain and develop programs, while 110 community-sponsored heritage language schools were assisted through the Linguistic Support Program.

The Manitoba Intercultural Council (MIC), which serves as the advisory body to Government on ethnocultural affairs, is elected by the ethnocultural community and operates under the terms of the Manitoba Intercultural Council Act. The Council receives operational support from Manitoba Culture, Heritage and Recreation. MIC also serves as the lottery umbrella group for distribution of grants from lotteries funds to ethnocultural organizations. An extensive review of the Government's policy on multiculturalism is to be undertaken this year.

Services to New Canadians

Manitoba continues to welcome thousands of refugees and immigrants from virtually every country in the world. New Canadians often require assistance with employment, housing and language skills. Through the work of the Immigration and Settlement Branch, over 400,000 hours of English language training are provided to thousands of students each year. Employment placement and assistance comes from both federal and provincial resources.

Prospective immigrants wishing to establish businesses in Manitoba are encouraged by the Department of Industry, Trade and Technology, which reviewed more than 70 proposals in 1986 alone.

Summary

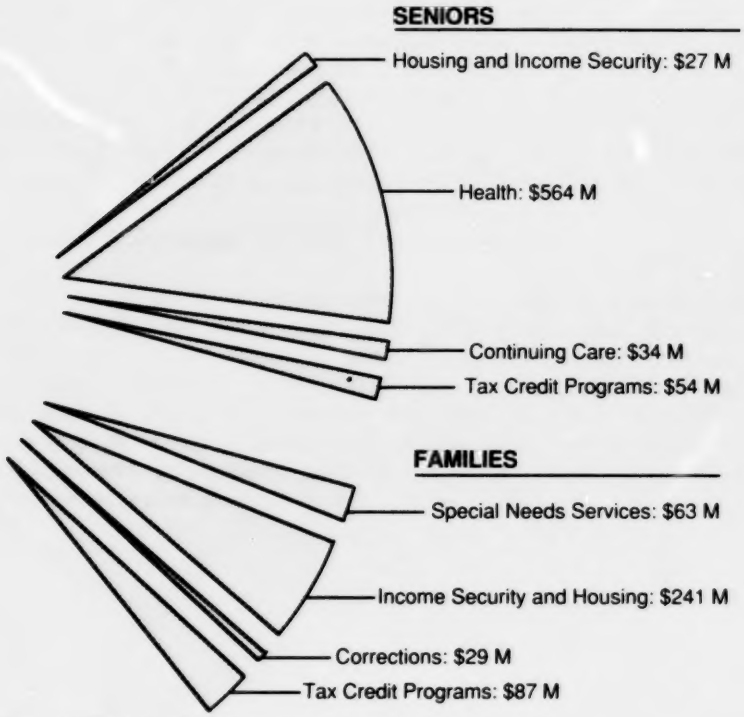
Manitobans enjoy a comprehensive range of services which together create an excellent quality of life. The Provincial policy of working closely with all groups involved in health, housing, educational, consumer, cultural and recreational services will ensure that these high standards continue in the future.

FOCUSSED SERVICES

Ensuring fair access to vital services for all people is one of the major principles of Manitoba's social and economic programs. Particular concern must be given to those groups who, because of history or their own special needs, are less able to secure access on their own. At the same time, service must be available in ways which promote their independence and dignity, and avoid creating dependency and loss of initiative. Manitoba supports a wide variety of services for women, Native people, those with special needs, low-income people, and seniors to enhance their full participation and sharing in the benefits of our society.

Focussed Services : $1099 M

Focussed Services



Source: Manitoba Department of Finance

Services for Seniors

Senior citizens are the backbone of many of our services, both for other seniors, and as valuable volunteers in a wide range of organizations ranging from churches and community clubs to recreation and social service agencies. At the same time, some seniors require access to suitable housing, special health care and other resources to meet their particular requirements.

The Manitoba Society of Seniors, with its many local branches, is a vocal advocate for its members' needs. Seniors themselves advise the Minister of Health directly through the Manitoba Council on Aging.

Health Care

Every year, over 120,000 seniors receive some form of care through our health system. Increasingly, services such as Home Care focus on assisting people to remain self-reliant and in their own homes. Both common sense and research indicates that personal independence is a key factor in mental and physical health. Manitoba has been a leader in the development of support services such as home maintenance, Meals On Wheels and other services which allow many seniors to live independently in their own homes or apartments. During the current year, over 20,000 seniors will receive Home Care, which has been the fastest growing health Program in the province in recent years. New initiatives, including a 40% or $10 million increase contained in this year's Budget, will allow further needed expansion.

Almost one-half of all health expenditures goes to meet the needs of seniors. Our Province is actively fostering the extension of long-term care centres such as Deer Lodge Centre. Expansion of personal care homes and outreach programs is continuing throughout Manitoba. Nine thousand Manitobans currently live in personal care homes or extended care facilities.

Housing

Manitoba seniors benefit from approximately 14,000 housing units located in almost every corner of the province from Emerson to Flin Flon and Virden to Lac du Bonnet. This year, a further 190 seniors' units will be committed, marking continued progress toward Manitoba's three-year goal of constructing 2,700 units of public housing between 1987 and 1989.

Associated with these centres can often be found programs for other seniors living close by, and in some cases, for those with special health needs as well. For example, in St. Andrew's Place in Winnipeg, the Health Action Centre provides regular health care to over 1,000 seniors who live in the immediate neighbourhood.

Income Security

Until recently, seniors frequently faced poverty in retirement. Today, thanks to improved income support programs at national and provincial levels, poverty among seniors has declined sharply.[4] Manitoba's programs offer effective and comprehensive income assistance to seniors. The Pensioners' School Tax Assistance Program, when coupled with the regular property tax credit system, provides up to $800 per residence to reduce property taxes. Through the increased Manitoba Cost of Living Tax Credit Program, low-income seniors will receive over $16 million in 1987/88. Manitoba's 55 Plus Program makes supplementary payments of over $7 million to some 27,000 low-income Manitobans fifty-five years or older. Pharmacare provided $14 million toward senior citizens' drug costs in 1986/87. The costs of glasses and much home care equipment are also partially subsidized. The Shelter Allowance For Elderly Renters (SAFER) Program provided $3.2 million in rent support to 3,550 seniors, allowing many to stay in apartments in which they have lived for many years. In total, these Programs provided over $105 million to Manitoba seniors during 1986/87.

Manitoba's goal is to support the continued independence of our senior population, while meeting their growing needs in years to come.

Services for Families

When families experience problems, they are generally in one of four areas: income, shelter, family relationships, or needs of a particular family member. Manitoba's families can receive support in all these areas through direct Provincial programs, through non-profit agencies which are Provincially supported, and through self-help and volunteer advocacy groups which work to better the overall conditions of all families.

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[4]"Low-income" for purposes of this section is defined as families with income below $25,000 and seniors with income below $15,000 per year. Seniors are those 65 years of age or older.

Income Supports

A monthly average of over 60,000 individual Manitobans from over 30,000 families need social assistance on a short- or long-term basis. Most recipients are parents with young children or persons with long-term disabilities. Recently, Manitoba signed an agreement with Canada to ensure that there would be greater supports and incentives available to people on social assistance to gain employment skills and to make a successful transition to the work force. This agreement will assist about 1,600 Manitobans to make the transition from social assistance to employment each year.

Manitoba's Child Related Income Support Program (CRISP) will provide over $7.7 million to about 10,500 families in 1987/88. Other families receive Provincial support to gain access to child care, which for many is a prerequisite to employment and an escape from poverty.

Property taxes are significantly offset for lower-income Manitobans. In many parts of the province, this means that lower-income families pay little or no property taxes for school purposes. Low- and moderate-income families also benefit from the Manitoba Cost of Living Tax Credit Program. In 1987/88, an estimated 230,000 families and individuals will receive about $37 million to reduce their overall tax burden through this income-related tax credit program.

However, the most effective anti-poverty program of all is steady employment. With 13,000 new jobs in 1986, Manitoba has had its best job creation record since 1974.

Homes for Families

Provision of adequate housing brings benefits both to families and to communities. Families receive the benefits of safe and affordable shelter, while neighbourhoods are strengthened and renewed. Over 8,500 Manitoba families live in homes provided through Manitoba Housing in co-operation with the Canada Mortgage and Housing Corporation. A further 380 family units were constructed in 1986 and 570 are planned for 1987, which will bring the total in Manitoba to over 23,700 seniors' and family housing units.

Co-operatives provide another model of family housing in which Manitoba plays a leading role. Through the two-year-old Co-op HomeStart Program, a record 429 units have

been committed, bringing the total of all co-op units to over 1,700. There are 27 additional housing co-operatives planning projects throughout Manitoba.

More than 1,200 units have been built under the Manitoba RentalStart Program, which stimulated construction in downtown Winnipeg and Brandon in a time of very low vacancy rates. Now that numbers of available units in these areas have risen, this Program's focus has been shifted to rural areas.

The Shelter Allowance for Family Renters (SAFFR) Program allows families to receive rental support up to designated maximum levels, thereby giving low-income families access to a wider range of housing stock than would otherwise be the case. At the present time, some 3,700 families receive benefits under this Program.

Strengthening Family Relationships

Many families experience periodic stress. For some, this leads to the need for professional counselling and support, perhaps through a family service agency or a private practitioner. Manitoba provides family counselling services through formal marriage conciliation programs, Child and Family Service Agencies, regional community services offices and voluntary agencies supported by the Province.

If family breakdown does occur, Manitoba has fair and progressive family laws in place to ensure that the rights and needs of all parties are respected. Maintenance orders, which cause such problems in other jurisdictions, have been successfully enforced in Manitoba. Our Province has ensured the rights of separated spouses and saved considerable money by using this system which is now being considered as a model by other jurisdictions. In addition, Manitoba has enforcement agreements with many other provinces and states to ensure that payment of maintenance orders continues even when the spouse moves out of Manitoba or Canada.

Family violence, whose victims are primarily women and children, is an unacceptable fact of life for far too many Manitobans. Through the Wife Abuse Program, an expanding network of services, including safe homes and shelters, can be found in many parts of Manitoba. Physical abusers can receive counselling through new programs such as Evolve, located at Klinic.

Community agencies, volunteers, and the Province will continue to collaborate to identify and support abuse victims. Abusing partners will be charged and offered treatment, making it clear that family violence is not acceptable to Manitobans.

Family Members with Special Needs

Families have always been the major source of support for members with particular health or other needs, and this is still the case today. But families sometimes need new skills or special supports to give the best possible assistance to their members. Volunteer agencies, often with funding from government, assist families who have children with developmental handicaps or learning disabilities. Community service workers provide infant stimulation programs to children, teaching parents how best to help their child develop skills and abilities necessary for daily living.

Throughout Manitoba, parents have formed voluntary agencies to "welcome home" community members from large institutional settings, or to enable older family members to remain in the community. The Welcome Home Program has achieved its first major goal of reducing occupancy in the Manitoba Developmental Centre (MDC), so that the Northgrove wing can be permanently closed. By the summer of 1987, the occupancy of MDC will have been reduced by more than 200 persons since the inception of the Welcome Home Program.

Across Manitoba, more than 100 community residences, providing homes for nearly 600 adults with developmental handicaps, have been established. Such homes are now found in many neighbourhoods, with growing public acceptance.

Apartments are also being used for growing numbers of people with special needs, with support staff or friends living close by. For example, an older 28-suite building in the heart of Winnipeg has been renovated for a mix of disabled and non-handicapped people by Prairie Housing Co-op Limited, a non-profit housing developer, under the Co-op HomeStart Program.

Summary

In spite of rising rates of breakdown, the family remains our most enduring social structure, taking on new forms, and adapting to new social pressures and realities. The goal of Manitoba's social policies and programs is to strengthen the family in all its forms so that it can continue to be the primary source of support for us all.

Manitobans recognize that everybody must have a fair opportunity to participate fully in society and to have secure access to its benefits. Manitoba's programs which are targeted at specific groups go a long way to ensuring that all Manitobans enjoy this fairness.

CONCLUSION

Manitobans have worked together to produce the broad range of benefits which we share. Together, we have acted to secure both economic and social opportunities for our families today, and for our children tomorrow. The Government of Manitoba will continue to foster its active partnership with labour and business, associations and volunteer organizations, communities and individuals throughout our province. The future is ours to build.

I. TAXATION AND RELATED PROGRAM ADJUSTMENTS

The purpose of this section is to provide a general description of taxation and related measures introduced in the 1987 Manitoba Budget. For more detailed information, the reader is advised to contact the offices listed or consult the appropriate legislation.

CORPORATION CAPITAL TAX CHANGES
(1987/88 Revenue Impact: +$14.6 million)

A **Corporation Capital Tax surcharge** of 0.2% will be applied to large corporations with taxable paid-up capital over $10 million, effective for taxation years ending after June 30, 1987. The rate applied to taxable paid-up capital affected by the surcharge will be 0.5%, the same as Saskatchewan. The surtax will affect about 900 corporations of Manitoba's 40,000 corporations.

The **Corporation Capital Tax rate on Trust and Loan Corporations** will be increased from 0.9% to 3.0%, the same rate as that applied to banks, for taxation years ending after June 30, 1987.

Inquiries regarding the Corporation Capital Tax should be directed to:

Corporation Capital Tax Branch
Department of Finance
Room 300, Norquay Building
Winnipeg, Manitoba
R3C 0P8
Telephone: (204) 945-3761

RETAIL SALES TAX CHANGES
(1987/88 Revenue Impact: +$102.0 million)

The general Manitoba **sales tax rate** (under the Retail Sales Tax Act and the Revenue Act, 1964, Part 1) will be increased from 6% to 7%, effective May 4, 1987. The Manitoba sales tax rate will be the same as the current rate in Ontario and British Columbia, and second lowest among the nine provinces which levy sales tax.

The sales tax will be extended to **cigarettes, cigars and other tobacco products, computer applications software, insulation materials, energy-saving devices** and **prepared take-out foods in excess of $6.00.**

Inquiries regarding the sales tax should be directed to:

Retail Sales Tax Branch
Department of Finance
Room 115, Norquay Building
Winnipeg, Manitoba
R3C 0P8
Telephone: In Winnipeg: 945-6444
Outside Winnipeg: 1-800-782-0318
(toll free)

MANITOBA COST OF LIVING TAX CREDIT
(Full Year Revenue Impact: -$23.1 million)

The **Manitoba Cost of Living Tax Credit** will be increased from 3% to 4% of personal exemptions, effective January 1, 1987. The higher credit can be claimed when filing the 1987 tax returns next spring. This measure will offset the effects of the sales tax rate increase for low-income taxpayers.

The following table shows the distributional impact of the sales tax increase, together with the offsetting benefits provided under the Cost of Living Tax Credit:

Sales Tax Increase as a Per Cent of Family Income Before and After Cost of Living Tax Credit Increase

Family Income ($)	Before (%)	After (%)	Average Increase in Cost of Living Tax Credits ($)
Under 10,000	0.62	(0.75)	72
10,000 - 20,000	0.41	(0.07)	72
20,000 - 35,000	0.37	0.15	65
35,000 - 50,000	0.34	0.29	18
50,000 and over	0.28	0.28	0

Manitoba's Cost of Living Tax Credits are administered by Revenue Canada. Prior to June 1, 1987, inquiries may be directed to:

Federal-Provincial Relations Division
Department of Finance
Room 4, Legislative Building
Winnipeg, Manitoba
R3C OV8
Telephone: (204) 945-3757

PERSONAL INCOME TAX CHANGES
(1987/88 Revenue Impact: +$83.7 million)

A new **Net Income Tax** will be introduced, effective July 1, 1987. The tax will apply at a 2% rate on net income. With the July 1, 1987 start-up date, the effective rate for the 1987 calendar year will be 1%.

A major new Manitoba Tax Reduction will be implemented, retroactive to January 1, 1987. The new reduction replaces the present Manitoba low-income reduction. The maximum reduction will be the greater of 5% of personal exemptions, or $200 ($300 in 1988), less 1% of the individual's net income. The reduction is non-refundable and will affect both the Net Income Tax and general Manitoba income tax payable.

The high-income surtax will be replaced by a new surtax on net income, effective January 1, 1988. The new surtax will apply at 2% of net income of at least $30,000 for single taxfilers, with an additional offset related to personal exemptions for families. Thus, it will depend on both income and family size.

The following charts illustrate the calculation of the Tax on Net Income, the Manitoba Tax Reduction, and the new surtax for 1988.

FOR ILLUSTRATION PURPOSES ONLY		
CALCULATION OF 1987 TAX ON NET INCOME AND MANITOBA TAX REDUCTION		
Basic Manitoba Income Tax (54% of Basic Federal Tax)		(1)_____
Manitoba Surtax (20% of item 1 in excess of $2,591)		(2)_____
Manitoba Net Income Tax (1% of Net Income)		(3)_____
Gross Manitoba Tax (1)+(2)+(3)		(4)_____
Manitoba Tax Reduction		
5% of Personal Exemptions* (If less than $200, enter $200)	(A)_____	
1% of Net Income	(B)_____	
Subtract (B) from (A) (If negative, enter 0)	(C)_____	(5)_____
NET MANITOBA TAX PAYABLE (4)-(5) (Before refundable Manitoba Tax Credits)		==========

*Total Personal Exemptions, including Disability and Education Deductions other than for a spouse.

FOR ILLUSTRATION PURPOSES ONLY		
CALCULATION OF 1988 TAX ON NET INCOME AND MANITOBA TAX REDUCTION		
Basic Manitoba Income Tax (54% of Basic Federal Tax)		(1)_____
Manitoba Net Income Tax (2% of Net Income)		(2)_____
Manitoba Surtax Threshold		
Basic $300	(A) $300	
Add: 5% of Personal Exemptions* (If less than $300 enter $300)	(B)_____	
Threshold (A)+(B) (If less than $600 enter $600)	(C)_____	
Manitoba Surtax (2)-(C)		(3)_____
Gross Manitoba Tax (1)+(2)+(3)		(4)_____
Manitoba Tax Reduction		
5% of Personal Exemptions* (If less than $300 enter $300)	(D)_____	
1% of Net Income	(E)_____	
Subtract (E) from (D) (If negative, enter 0)	(F)_____	(5)_____
NET MANITOBA TAX PAYABLE (4)-(5) (Before refundable Manitoba Tax Credits)		==========

*Total Personal Exemptions, including Disability and Education Deductions other than for a spouse.

LEVY FOR HEALTH AND POST-SECONDARY EDUCATION
(1987/88 Revenue Impact: +$52.8 million)

The general **Levy for Health and Post-Secondary Education** rate will be increased from 1.5% to 2.25%, effective April 1, 1987. This will be the first increase in the Levy since it was introduced in 1982. Employers with payrolls of under $100,000 (up from $50,000) will be exempt from the Levy, retroactive to January 1, 1987. For payrolls between $100,000 and $150,000, the rate will gradually increase to the full rate. The increase in the basic Levy exemption reduces the number of employers paying the Levy by about 3,700, from 12,100 to 8,400.

The new Manitoba Levy rate compares favourably with comparable charges in other provinces.

Employer Health/Education Levies
(% of compensation paid)

Income ($)	Quebec (%)	Ontario* (%)	Manitoba (%)	Alberta* (%)	British Columbia* (%)
15,000	3.22	4.76	2.25	2.24	2.72
20,000	3.22	3.57	2.25	1.68	2.04

*These provinces do not have employer levies per se. However, employers generally pay health/medicare premiums on behalf of employees. The rates shown reflect the family premium rates currently in effect.

Note: Employers with payrolls under $100,000 are exempt from the Levy in Manitoba.

Inquiries should be directed to:

Health and Post-Secondary Education Tax Branch
Department of Finance
Room 300, Norquay Building
Winnipeg, Manitoba
R3C 0P8
Telephone: (204) 945-3761

MOTIVE FUEL TAXES
(1987/88 Revenue Impact: +$10.8 million)

The motive fuel tax on **clear diesel fuel** will be increased from 9.2¢ per litre to 9.9¢ per litre, with a proportional increase for other motive fuels. The new rate will be the same as in Ontario and will be tied for fourth lowest among the fuel taxing provinces.

The **railway locomotive diesel fuel tax rate** will be increased from 9.2¢ per litre to 13.6¢ per litre, the same as in Saskatchewan.

These changes take effect April 1, 1987.

There is no change in the gasoline tax. All marked fuels used by farmers will continue to be exempt from Manitoba fuel taxes. The motive fuel tax on compressed natural gas will not be increased.

Inquiries regarding fuel taxation should be directed to:

Mining and Use Tax Branch
Department of Finance
Room 700, Norquay Building
Winnipeg, Manitoba
R3C 0P8
Telephone: (204) 945-3288

TOBACCO TAXES

(1987/88 Revenue Impact: +$5.5 million)

The **Tobacco Tax rate** will be increased from 4.1¢ per cigarette to 4.6¢ per cigarette, effective midnight, April 12, 1987.

Inquiries regarding tobacco taxation should be directed to:

Mining and Use Tax Branch
Department of Finance
Room 700, Norquay Building
Winnipeg, Manitoba
R3C 0P8
Telephone: (204) 945-3284

LAND TRANSFER TAX

(1987/88 Revenue Impact: +$9.7 million)

A new fairer **Land Transfer Tax** will replace the existing system of land transfer charges, effective May 15, 1987. The new Land Transfer Tax will apply graduated rates based on the value of the property. The revised fees will be $30 per land or mortgage transaction. The new Land Transfer Tax rate schedule is reproduced below.

Land Transfer Tax Rate Schedule

Value of Property	Tax
First $30,000	Nil
Next $30,000 - $90,000	0.5%
Next $90,000 - $150,000	1.0%
Above $150,000	1.5%

The new system will replace the old land and mortgage transfer fees which resulted in transactions with a mortgage being charged almost double those without a mortgage. A **temporary exemption from the Land Transfer Tax will be extended to farmers** who purchase farm property for continued use in farming. The new system will be more progressive by reducing the charges on lower-priced home purchases as shown in the examples below. Ontario's tax is shown for comparison.

Examples of Land Transfer Tax for Typical Homes

	Bungalow Value $40,000 Mortgage $30,000		Average Home Value $75,000 Mortgage $60,000		Large Home Value $150,000 Mortgage $80,000	
	Old ($)	New ($)	Old ($)	New ($)	Old ($)	New ($)
Fees	33	60	33	60	33	60
Transfer	78	50	148	225	298	900
Mortgage	49	-	109	-	149	-
Total	**160**	**110**	**290**	**285**	**480**	**960**
Ontario		232		507		1,257

The new tax will also increase the amounts charged on purchases of more valuable property, including commercial property.

Examples of Land Transfer Tax for Commercial Property

	Value $100,000 Mortgage $85,000		Value $1,200,000 Financing $600,000	
	Old ($)	New ($)	Old ($)	New ($)
Fees	33	60	33	60
Transfer	198	400	2,398	16,650
Mortgage	159	-	1,189	-
Total	**390**	**460**	**3,620**	**16,710**
Ontario		757		11,757

Inquiries regarding the new Land Transfer Tax and fee schedule should be directed to:

Manitoba Land Titles Office
Department of the Attorney General
4th Floor, Woodsworth Building
Winnipeg, Manitoba
R3C 3L6
Telephone: (204) 945-2244

OTHER FEES AND CHARGES
(1987/88 Revenue Impact: +$14.9 million)

Various Departmental fees and charges, primarily in the **Department of Highways and Transportation** and the **Department of Natural Resources**, will be increased. These changes will be announced by the Departments administering these charges.

WATER POWER RENTAL RATES
(Full Year Revenue Impact: -$10.4 million)

Water power rental rates will be reduced by 24%, or $2.79 per horsepower-year of output to $8.96 per horsepower-year. Installed capacity charges will be decreased by $1.12 per installed horsepower to $3.58 per installed horsepower. The reduced charges will come into effect April 1, 1987.

SPECIAL FARM SCHOOL TAX ASSISTANCE
(1987/88 Cost: $12.0 million)

The Manitoba Property Tax Credit Program and the expanded School Tax Assistance Program for Manitobans over age 55 provide significant relief from school taxes for farmers. Table 1 shows the estimated relief for individual farmers under these programs in 1987.

Table 1 Present Property Tax Assistance Benefits
Manitoba Farmers -- 1987

Income ($)	Number of Farmers*	Total Benefits ($ millions)
Under 7,500	6,800	3.3
7,500 - 15,000	8,800	4.3
15,000 - 25,000	8,000	3.3
25,000 - 50,000	9,200	3.2
50,000 and over	3,900	1.3
Total	**36,700**	**15.4**

*The basis for these figures is given with a note at the end of this section.

In addition to the substantial assistance under the Manitoba Property Tax Credit and the 55 PLUS School Tax Assistance Programs, the Budget announced extra help for farmers.

The **Special Farm School Tax Assistance Program** will provide dollar-for-dollar coverage up to a maximum of $500 for school taxes in excess of general property tax assistance, including the $325 basic Property Tax Credit and (where applicable) the $175 School Tax Assistance. The additional assistance available to individual farmers under the new Program is shown in Table 2.

Table 2 Special Farm School Tax Assistance Benefits

Income ($)	Number of Farmers	Additional Benefits ($ millions)
Under 7,500	3,400	1.1
7,500 - 15,000	6,500	2.3
15,000 - 25,000	5,900	2.2
25,000 - 50,000	7,200	2.3
50,000 and over	3,400	1.1
Total	**26,400**	**9.0****

In addition to individual farm operators shown in Table 2 above, all individuals operating farms, including tenants and shareholders of family farm corporations actively engaged in farming, will be eligible for assistance under the Program. It is estimated that people farming under these arrangements will be eligible for an additional **$3 million in assistance.

The Program will completely cover school taxes for almost 13,000 additional farmers. This will bring the total number of farmers whose Provincial Property Tax Assistance equals or exceeds school taxes to 25,200. Table 3 shows the total percentage of school tax covered for farmers by all provincial programs.

Table 3 Effects of Manitoba Tax Assistance Programs on Farmers' School Taxes

Income ($)	Number of Farmers with School Taxes Completely Covered	% of all Farmers	% of all Farmers' School Taxes Covered
Under 7,500	5,700	84	81
7,500 - 15,000	5,900	68	72
15,000 - 25,000	4,900	61	71
25,000 - 50,000	6,100	66	73
50,000 and over	2,600	67	75
Total	**25,200**	**69**	**74**

The Province is seeking the co-operation of municipalities to ensure delivery of benefits as quickly as possible.

Inquiries regarding the Farm School Tax Assistance Program should be directed to:

Tax Assistance Office
Department of Finance
Room 309, Norquay Building
Winnipeg, Manitoba
R3C 0P8
Telephone: In Winnipeg: 943-3401
Outside Winnipeg: Zenith 3-6400
(toll free)

Note: The figures shown in the tables in this section (and elsewhere in the Budget Address and Budget Paper) are based on individual income tax records. The tables show all Manitobans who file a statement of farming income and expenses with their income tax returns and whose returns indicate that they pay property taxes. The number of farmers determined in this way is different from other bases. The income groups shown are based on the total income as reported on income tax returns.

55 PLUS -- SCHOOL TAX ASSISTANCE
(1987/88 Revenue Impact: -$2.6 million)

Details of the enhancement to the previous **Pensioners' School Tax Assistance Program** have been finalized. The Program has been extended to all people between the ages of 55 and 64, on the basis of income levels, regardless of source. Eligible individuals with family incomes of less than $15,000 will receive full benefits, while those with family income in excess of $15,000 will have the assistance reduced by 2% of the income in excess of $15,000. No benefits will be available where family income exceeds $23,750.

Family income for the purposes of this Program is the combined assessed net income of the applicant and the applicant's spouse for the previous tax year; for example, benefits for 1987 will be determined using 1986 income information.

In 1987, a transitional measure will apply to pensioners in the 55-64 age group who qualified in 1986 on the basis of source of income. These people will receive full benefits in 1987 if family income is less than $23,750, but will not qualify for any benefits if income exceeds that threshold.

All senior citizens -- those age 65 or older -- continue to qualify.

Application forms will be available from municipal offices by June 1, 1987.

Inquiries regarding 55 PLUS School Tax Assistance should be directed to:

Tax Assistance Office
Department of Finance
Room 309, Norquay Building
Winnipeg, Manitoba
R3C 0P8
Telephone: In Winnipeg: 943-3401
Outside Winnipeg: Zenith 3-6400
(toll free)

II. EFFECTS OF TAX MEASURES

1. Introduction

The central objective of the taxation changes introduced in the 1987 Manitoba Budget was to increase fairness in the way that Manitoba's revenues are raised.

The Manitoba Government believes taxes should be progressively related to ability to pay, and that a comprehensive measure of income is the best measure of ability to pay. The Government's foremost concern in raising the resources needed for essential programs, was that additional revenues should be levied in the fairest manner possible.

The most important personal tax changes involve the Personal Income Tax and the Retail Sales Tax.

- Beginning on July 1, 1987, a 2% tax will be levied on net income. This means that the full-year rate for 1987 will be 1%. In 1988 the Net Income Tax will apply for the entire year at the 2% rate.

- A major new Manitoba Tax Reduction will reduce or eliminate Manitoba income taxes for lower and moderate income Manitobans. The maximum Reduction will be 5% of personal exemptions and will diminish at a rate of 1% as net income increases. The reduction will affect all Manitoba income taxes including the new tax on net income.

- For 1988, the present surtax on higher income individuals will be replaced by a surtax calculated on the Net Income Tax in excess of a threshold which will vary according to family size.

- School Tax Assistance for people between age 55 and 64, and for farmers has been significantly expanded.

- After May 3, 1987 the Retail Sales Tax rate will increase to 7% and the tax base will be broadened to include some items presently not taxed.

- To ensure the tax measures are fair for all Manitobans, the Cost of Living Tax Credit will be increased from 3% to 4% of personal exemptions.

Two factors were especially important in the decision to proceed with these personal tax changes: the degree of flexibility available to implement fair income tax changes, and the recent history of federal tax policy.

2. Provincial Flexibility

Manitoba's Personal Income Tax is administered by the federal government under the terms of the Canada-Manitoba Tax Collection Agreement. The provincial tax is applied as a per cent of federal tax.

A single national administration has important advantages in terms of simplicity, compliance, and interprovincial harmony. These arrangements also mean that only the federal government can make changes to the income tax base. Federal changes usually have a direct impact on provincial income taxes, regardless of whether provincial governments agree with the federal initiatives.

Provinces like Manitoba, which participate in the Tax Collection Agreements, have limited flexibility to change the income tax structure. This means that some measures which would significantly improve the fairness of Manitoba's income taxes were precluded as the Manitoba Government considered its revenue options for 1987.

This is one reason why Manitoba has consistently ranked national tax reform among the most urgent federal-provincial priorities.

Some provinces -- including Manitoba -- have introduced income related tax credits to make their tax structures fairer. More recently, the federal government has agreed to administer income taxes applied directly to "net income". Essentially, "net income" includes all income assessed for tax purposes net of the expenses incurred to earn this income.

While improvements to this income concept would be desirable, levying an income tax on this basis is significantly fairer than other options presently available to the Manitoba Government.

3. Federal Income Tax Policy Since 1981

The pattern of federal tax measures which developed over the last several years was another important consideration in the decision to emphasize equity in the tax changes introduced in this Budget.

Since 1981, federal governments have introduced significant changes to income and sales taxes, and to the child benefit system. In general, the federal changes have increased taxes and lowered income supports for moderate and middle income

working people. Higher income individuals, particularly those whose incomes are largely from investment sources, benefited from the changes.

Table 1 compares the federal and provincial taxes and child benefits under the system in effect for 1981, and at present, for a Manitoba family of four with $25,000, $50,000, and $150,000 of employment income. (The changes shown in the table are entirely the result of changes introduced at the federal level.)

TABLE 1

Effect of Federal Tax and Child Benefit Changes Introduced since 1981 on a Manitoba Family of Four With All Income from Employment

Employment Income ($)	Taxes with 1981 System ($)	Taxes with Present System ($)	Increase or (Decrease) ($)
25,000	2,454	3,149	695
50,000	13,008	14,369	1,361
150,000	74,062	71,385	(2,677)

Most families whose incomes are derived exclusively from employment have absorbed tax increases as a result of federal changes since 1981. Only at very high incomes have the federal measures produced substantial savings.

Table 2 illustrates the effects of the same federal changes for similar families which derive their income from investment sources: interest, dividends, and capital gains.

TABLE 2

Effect of Federal Tax and Child Benefit Changes Introduced since 1981 on a Manitoba Family of Four With All Income from Investment Sources

Investment Income ($)	Taxes with 1981 System ($)	Taxes with Present System ($)	Increase or (Decrease) ($)
25,000	(30)*	30	60
50,000	5,157	5,476	319
150,000	45,793	37,290	(8,503)

*Credits and Family Allowances exceed taxes

Some people with incomes so low that no income taxes would be payable before or after the federal changes have received a small net benefit as a result of somewhat larger Child Tax Credits initially. However, the de-indexing of Family Allowances and the diminishing increases scheduled for the Child Tax Credit mean that, in coming years, these people will also receive less income than under the previous federal system.

Tables 1 and 2 illustrate the effect of the federal changes on a particular type of family with specific income sources. In reality, most people's situations are usually less clear-cut, and the calculations shown in the tables above will not apply to all families.

To determine whether these results are realistic, the impact of the federal changes was also estimated by simulating the pre-1982 personal income tax system on a sample of income tax records of Manitobans. The results are summarized in Table 3. This analysis confirms that the patterns suggested in Tables 1 and 2 are valid for all Manitoba households.

TABLE 3

Annual Effect of Federal Tax and Child Benefit Change Introduced since 1981 (Manitoba Households)

Income Group ($)	Average Federal Taxes		Average Increase or (Decrease) ($)
	1981 System ($)	Present System ($)	
Under 10,000	(16)*	(20)*	(4)
10,000 - 15,000	232	387	155
15,000 - 20,000	817	1,144	327
20,000 - 25,000	1,512	1,964	452
25,000 - 35,000	2,578	3,238	660
35,000 - 50,000	4,543	5,586	1,043
50,000 - 100,000	8,915	10,125	1,210
100,000 - 150,000	22,496	22,978	482
Over 150,000	69,526	64,811	(4,715)
Average	3,055	3,561	506

*Credits and Family Allowances exceed taxes

The federal income tax changes have also widened the differences in taxes between Manitoba households whose incomes are from different sources. Households with incomes primarily from employment sources have average federal income taxes which are significantly higher than those households with incomes largely from investment sources.

Under the 1981 system, employees' average federal income taxes were 1.73 times investors' at similar income levels. With the federal changes, employees' average taxes increased to 1.79 times as much as investors'. Rather than narrowing the gap facing working Manitobans, federal changes made since 1981 have increased the unfairness facing households relying on employment income.

This analysis suggests that the federal changes were inequitable in at least two respects:

- They were not related to ability to pay; the individuals with the highest incomes were the only ones who received tax reductions.

- They increased the inequity between the taxes paid by people with employment and those with investment income.

Since Manitoba, and all other provinces which participate in the Tax Collection Agreements with the federal government, apply their personal income taxes as a percentage of federal income tax, most of the federal income tax changes are mirrored in the distribution of provincial income taxes. Increases in the general Manitoba Personal Income Tax would have compounded many of the inequities which have been built into the national personal income tax system over the last several years.

4. Effect of 1987 Manitoba Changes

The changes introduced in the 1987 Manitoba Budget will reduce net provincial personal taxes* for approximately 156,000, or 36% of households on a full-year basis. This year, while the effective Net Income Tax rate is 1%, about 227,000, or about 52% of households will pay lower provincial taxes.

The Manitoba tax measures are based on ability to pay and increase fairness among people receiving income from different sources. The changes also provide relief, or minimize increases, for the Manitobans who have been treated the most unfairly by the federal changes. Revenue increases are concentrated among those individuals who have received the most favourable treatment as a result of recent federal tax policies.

*Personal taxes mean personal income taxes including the net income tax and retail sales taxes.

Table 4 shows the effect of the Manitoba measures in 1987 for the same Manitoba families illustrated in Tables 1 and 2.

TABLE 4

Effects of Manitoba Changes on Provincial Taxes for a Family of Four

Income ($)	All Income from Employment		All Income from Investment	
	Present Taxes ($)	Change ($)	Present Taxes ($)	Change ($)
25,000	1,606	(11)*	598	61
50,000	5,511	661	2,246	683
150,000	27,543	1,916	14,377	1,904

*Taxes have decreased

The Manitoba changes reduce taxes for lower and middle-income families whose incomes are from employment. The largest increases are for individuals with higher incomes and who have received the most favourable treatment under the federal changes discussed earlier.

Again, these examples are illustrative of hypothetical families. The effect on all Manitoba households is compared with the federal changes in Table 5. The table shows the impact of the Manitoba changes for the 1987 tax year and on a full year basis.

TABLE 5		
Effects of 1987 Manitoba changes on Manitoba Households		
Income Group ($)	Manitoba 1987* ($)	Manitoba Full Year ($)
Under 10,000	(79)	(72)
10,000 - 15,000	(145)	(69)
15,000 - 20,000	(84)	57
20,000 - 25,000	(4)	189
25,000 - 35,000	142	404
35,000 - 50,000	353	724
50,000 - 100,000	652	1,226
100,000 - 150,000	1,283	2,271
Over 150,000	2,850	4,698
Average	140	369
*The 2% net income tax comes into effect July 1, 1987		

The Manitoba measures reduce taxes or minimize tax increases for the people who have been hardest hit by the federal changes since 1981. Tax increases are concentrated among those income groups whose federal tax increases are relatively lower or have actually gone down.

The changes also minimize tax increases for households whose incomes are derived primarily from employment. Among households with incomes above $35,000, employees' tax increases will be about 37% lower than for households with incomes primarily from investment (after the present surtax has been replaced).

The changes will narrow the spread in average Manitoba income taxes between people with incomes from employment and people whose income is from investment. Before the Budget changes, employees' average Manitoba income taxes were 1.75 times investors' at similar incomes. With the Manitoba changes, employees' average Manitoba taxes decrease to 1.67 times investors'.

The average Manitoba income taxes paid by employees will still be significantly higher than those paid by people whose income is primarily from investment. However, the measures introduced this year will narrow the gap, and the inequity will be less than under the federal system.

5. Conclusions

In contrast with the federal measures introduced during the last half decade, the changes introduced in the 1987 Manitoba Budget are progressive and fair:

- they provide additional support to the working poor -- the people who have been hit the hardest by recent federal tax policy;

- they confine most of the tax increases to those with the greatest ability to pay;

- they ensure greater fairness between individuals and families in similar circumstances with similar incomes from different sources;

- they secure revenues needed to protect essential services; and

- they provide the resources needed to extend additional support for Manitoba's hard-pressed farm community.

The analysis also underscores, once again, the need for comprehensive national tax reform.

6. Notes

The analysis in this Budget Paper is based largely on a sample of Manitoba individual income tax records updated to reflect expected 1987 incomes, demographic characteristics, and the tax deductions, exemptions, rates and offsets in place for 1987.

The current tax system, the 1981 federal tax system, and the changes announced in the 1987 Manitoba Budget Address were simulated in order to determine the impacts on Manitoba households.

The federal manufacturing sales and Manitoba retail sales taxes were also estimated, primarily on the basis of Statistics Canada's Family Expenditure in Canada survey data.

The Manitoba changes simulated included:

- the Net Income Tax;
- the Manitoba Tax Reduction;
- the Manitoba Surtax changes;
- the Retail Sales Tax changes;
- the Cost of Living Tax Credit; and
- the School Tax Assistance changes.

The simulations and the examples include the effects of the following federal changes:

- the rate reductions in the highest income brackets, which took effect in 1982;
- the gradual elimination of the federal tax reduction for lower and middle income Canadians;
- the partial de-indexation of personal exemptions and tax brackets;
- the changes made to the treatment of dividend income;
- the partial de-indexation of Family Allowances, and the related changes to the federal Child Tax Credits;
- the changes to various deductions such as employment expenses and charitable donations;

- the increases in Registered Pension and Retirement Savings Plans contribution limits;

- the cumulative $500,000 lifetime capital gains exemption (at its $100,000 level this year);

- federal sales tax increases and the federal Sales Tax Credit; and,

- the federal surtax introduced last year.

The examples of employee households were calculated using contributions to both registered pension and retirement savings plans. The examples of the investor households were calculated using equal amounts of income from three sources: interest, Canadian dividends, and capital gains.

There are a number of important items which are no longer in effect or which cannot be built into the simulations. The most important are the Scientific Research Tax Credits, which provided an estimated $3 billion in tax reductions to high income individuals and corporations in 1983 and 1984. Others include further RRSP contribution limits, the capital gains exemption increases scheduled for future years, and the "flow-through" shares used to finance various kinds of projects -- mining exploration, for example.

If these changes could be incorporated into the simulations and examples, the federal tax reductions for upper income individuals would be even greater.

III. MANITOBA TAX EXPENDITURE ACCOUNT

Tax expenditures are provisions built into the tax system which give preferences intended to encourage individuals or enterprises to complement governments' social and economic policy objectives. They may take the form of tax exemptions, deductions, deferrals, reduced tax rates, or tax credits. Consideration of governments' fiscal positions and the extent of public activity in the economy is incomplete without an account of tax expenditures.

The Manitoba Tax Expenditure Account provides estimates of the Provincial tax expenditures for major items and categories of items. The estimates are calculated from tax collection, Departmental and Statistics Canada data. The figures given are projections for 1987. A computer model was used to generate the income tax expenditure estimates. Some tax expenditures other than those listed could not be estimated because data are not presently available.

1987 Tax Expenditure Account

PERSONAL INCOME TAX	1987 ($ millions)
Deductions:	
- Contributions to:	
° Registered Pension Plans	36.0
° Registered Retirement Savings Plans	32.2
° Canada Pension Plan	17.4
- Employment expense deduction	26.2
- $1,000 investment income	24.4
- Unemployment insurance	21.6
- Charitable donations	15.6
- $1,000 private pension income	6.2
- Union dues	5.8
- Other employment expenses	5.7
- Spousal deductions transfers	3.7
- Child Care Expenses	2.7
- Tuition fees	2.2
- Medical expenses	2.2
- $50 per month for education	1.2
Exemptions:	
- Spousal/equivalent exemption	38.8
- Age exemption and disability deduction	27.2
- Children and other dependents	20.9
- $500 of research grants, bursaries and scholarships	0.2
Exclusions:	
- Employee benefits	37.8
- Preferences for capital gains	33.4
- Life insurance/health benefits	24.9
- Veterans'/services' allowances and pensions	6.3
- Northern allowances	0.5
Tax Credits:	
- Dividend gross-up and tax credit	9.9
Other Provisions:	
- 5-year block averaging provision for farmers and fishermen	0.5

CORPORATION INCOME TAX	1987 ($ millions)
Deductions:	
- One-half taxation of capital gains	21.6
- Small business deduction (lower tax rate)	17.3
- Excess capital cost allowance over book depreciation	13.7
- Fast write-off of Canadian exploration and development expenses and depletion allowances	10.1
- Patronage dividends by Co-ops and Credit Unions	1.3
- Charitable donations	1.1

RETAIL SALES TAX	
Exemptions:	
- Food	120.1
- Personal services	26.6
- Agricultural seed and fertilizer	25.0
- Meals under $6.00	11.6
- Drugs and medicines	11.0
- Farm machinery and repair parts	10.6
- Agricultural feed and livestock	8.9
- Books, newspapers and periodical publications	7.8
- Public transportation (excluding air)	6.1
- Materials consumed in production processes	6.0
- Children's clothing and footwear	4.5
- Medical supplies, appliances and equipment	3.9
- Vehicle resale and mobile, ready-to-move and modular homes	3.7
- Purchased water	2.6
- Personal hygiene products	1.4

	1987 ($ millions)
FUEL TAXES	
Exemptions:	
- Marked gasoline and marked diesel fuel	37.0
Taxed at Lower Rates:	
- Marked diesel fuel for off-highway use	1.9
- Gasohol	1.5
LEVY FOR HEALTH AND POST-SECONDARY EDUCATION	
Exemptions/Reductions:	
- Employers with payrolls under $100,000/$150,000	13.2
CORPORATION CAPITAL TAX	
Exemptions:	
- Corporations with taxable capital less than $1,000,000	13.5
- Some Crown Corporations	10.4
- Credit Unions and Caisses Populaires	0.4
- Family farm corporations	0.6
- Co-ops	0.3

Honourable Howard Pawley
Premier of Manitoba

Notes for an Opening Statement on THE STATE OF THE FEDERATION AND THE ECONOMY" to the Annual Conference of First Ministers

Vancouver, British Columbia—November 20-21, 1986

Prime Minister:

It has been almost two years since the first of these meetings was held in Regina.

In many ways, the Regina meeting was a success...and that was encouraging.

I'd ask you to recall, Prime Minister, some of the comments I made during the closing session of that meeting.

Here is part of what I said in February of 1985:

> Mr. Prime Minister, in your opening statement yesterday, you indentified four key policy requirements for building confidence and for building renewal. **The four requirements were: harmony, consistency, predictability, and stability. We have no trouble agreeing with each and every one of those principles. At the same time...Manitoba believes strongly that another principle must be on the list. That principle is fairness** ...and national consensus will only have support—and will only deserve support—if it is fair to all regions, to all provinces, if it is fair to individuals, to working men and women, to those who can't find work, to the elderly, to Native Canadians, to young people, to farmers, small business and others. I sense that this principle is generally accepted around this table.

Prime Minister...I distinctly recall your having indicated that you agreed the fairness principle should not have been omitted from the federal guidelines list, and that it would be added.

I welcomed that indication...and I have since noted that the words "fair" and "fairness" have been used more and more frequently by federal spokespersons in the last year or so.

At our Regina meeting, I also said that:

> The key test of the success or failure of this Conference will be the action that we take to follow it up. For the people of Manitoba, one of the most important tests will be whether our province and our citizens are treated fairly by the Government of Canada in the future.

Prime Minister...you know what my views are on that question.

The State of the Federation—Manitoba's Perspective

Many Canadians in other parts of our country were surprised at the anger and disappointment in Manitoba and elsewhere in the West following your government's decision to award the CF-18 Maintenance Contract to Canadair of Montreal instead of Bristol Aerospace of Winnipeg.

The outrage was genuine. As you know, it was shared and voiced by all political parties in our Legislature and by key business and labour leaders in our province.

The depth of Manitobans' feelings about that decision—and our solidarity in responding to it—should not have been a surprise to anyone who understands our province or is sensitive to its history.

I don't believe our reaction was much different from the kind of response such a decision would have generated in another, smaller province or region—one which, like Manitoba, has worked long and hard to contribute positively to Canada's growth, and which looks to a strong national government as being vital to protecting our interests—and to safeguarding the future for our children.

Prime Minister...as I said to you when we met privately a little over two weeks ago in Ottawa, the CF-18 decision, and its serious negative implications for smaller provinces such as ours, have to be Manitoba's most important concerns at this Conference.

For us, they are at the heart of what our Confederation is supposed to be about.

We are talking about the kind of province we want to build.

We are talking about jobs—quality jobs—so our children don't have to leave Manitoba to find the kind of life they want for their families.

We are talking about opportunities—the kind of opportunities many of our parents and grandparents were seeking—and were promised—when they came to Manitoba.

We're talking about building upon what they built—a foundation based on hard work and co-operation between business people, wage earners, farmers and government.

We're talking about that kind of community and that kind of commitment —to Manitoba and to Canada.

We're talking about pride.

We're talking about fair play.

I feel it is important for me to try to explain the reasons for our deep concern to you and to our colleagues...and to try to offer some constructive suggestions for rebuilding the trust relationship with the federal government that is so critical to us in Manitoba...and, I think, to national unity.

We know that Canada is very difficult to govern. And...yes...fairness is a hard principle to apply. Sometimes it can be measured objectively, but sometimes it has to be judged in very subjective terms. In fact, trying to achieve the goal of fairness—as circumstances change—is one of the central challenges of federal-provincial relations, and is, or should be, the main focus of conferences like this one.

Prime Minister, I have acknowledged many times—and will do so again— that you and your government have made a notable effort to increase the number of ministerial conferences. That is an undeniable fact, and it deserves commendation.

At the same time though, I would submit that "process" improvements shouldn't be regarded as more than a means to an end—the end being better government, a better economy, and a better and fairer quality of life for all Canadians, right across the country...in our own province of Manitoba...in the outports of Newfoundland...in the interior of British Columbia...and in all the other provinces and regions.

The Economic Record

What does the record show for the last few years?

There is no doubt that some of the important economic indicators show major improvement. But, it is also true, as all ten Premiers emphasized at our Edmonton Conference in August of this year, that the national recovery has been uneven.

I know the federal government has acknowledged that point, but it can't be repeated too often—because a serious continuing imbalance in the pattern of economic development can be a source of division and resentment.

Clearly, the economic performance figures have to be looked at carefully...and from several perspectives.

Taking our own province as an example...**we can note with some satisfaction that Manitoba's relative economic performance has been well above average over the last few years, and in some cases near the top.** Prime Minister...you yourself made that point at our Conference in Halifax a year ago.

But, although the figures are encouraging, we are working from a small base...and in some cases we still have a fair distance to go even to get up to the national average.

Sometimes we feel that point is overlooked in Ottawa and the rest of Central Canada. The "West" isn't a single unit. There are four provinces—with some important common concerns, yes...but also with some major differences.

Of course, some of those differences are reflected in the uneven pattern of recovery, both here in Western Canada, and right across the country.

There is still an unacceptable gap of close to 15 percentage points in the unemployment rate from the highest province to the lowest. And some forecasters are predicting a widening of that gap next year. Also, there are significant disparities in forecasts of real output growth for 1987.

Other statistics show the increasing budgetary pressures facing provincial governments—and the substantial differences among the provinces and territories in such fiscal indicators as deficits, tax rates, and credit ratings. Needless to say, the figures for the smaller provinces are far from the best.

Later, I'll have a little more to say about some disturbing information which has surfaced recently indicating that, despite some nominal year-over-year increases, the federal government's contribution to Equalization is declining in relation to Gross National Product, and that there has been a major shift in federal industrial and regional development support into Central Canada.

As we address "The State of the Federation and the Economy," we have to ask whether these trends are contributing to the kind of "national reconciliation" we all want—and whether they are acceptable and consistent with our goals of fair and balanced development.

Prime Minister...the provincial Premiers issued a strong joint statement on regional disparities at our Conference in Edmonton earlier this year, and we agreed that **"national efforts to address regional economic disparities must be renewed."** The same Communiqué also stated:

> Some progress was made in overcoming regional disparities in the 1970s, but the recession in 1982 and the downturn in resource industries have undermined these advances. Moreover, federal regional development program spending has declined since 1980, exacerbating inequities. The Premiers noted the importance of federal transfers as well as direct federal economic expenditures in achieving the goal of fair and balanced regional development.

I am looking forward to discussing those concerns further this afternoon, when we deal with the "Economic Development" item on our Agenda.

We should also take time in the next two days to follow up our earlier discussions about the need to reduce, and hopefully eliminate, artificial and wasteful interprovincial competition for investment. The Western Premiers are clearly on record on this issue. In May of last year, we issued a Communiqué saying: **"The Premiers agreed that it is essential to prevent unproductive 'bidding wars' between provinces for major capital investments."**

"Beggar-your-neighbour" policies are pointless and counter-productive at any time, but when our financial resources are tight, and when we have other divisive issues to contend with, such action is, quite simply, destructive.

It looks as if we are starting to make some tangible progress toward reducing interprovincial trade barriers—and that is encouraging. Those barriers exist for a reason, of course, and the main one is inadequate national policies to encourage regional development.

"Fairness" and the CF-18

Prime Minister...earlier I talked about the CF-18 decision and why it is so important to the people of Manitoba.

The CF-18 was, and is, a symbol—a graphic symbol of the frustrations we have felt over many decades—the traditional frustrations of Western Canada...seeing national policies favour the centre...seeing our own prospects and priorities put second—or lower—behind those of provinces and regions which have greater electoral weight.

There is no need to list the traditional grievances of western Canadians or, for that matter, of provinces on either side of Ontario and Quebec. That wouldn't be very productive.

But, what has to be said is that many of those grievances were, and are, legitimate.

And...they haven't gone away.

This federal government promised to address them in a way that would be fair and positive.

Perhaps for some parts of the country that's happened—but our impression is different.

Two years ago, this month, our positive expectations were badly shaken by a federal decision to scrap a $40 million federal industrial research facility in Winnipeg, the Institute for Manufacturing Technology—Science Place Canada. Then, there was a decision to suspend badly needed revitalization work on the Port of Churchill and on the rolling stock needed to move grain through it. Later, those decisions were looked at again—but the outcome, in both cases, is still very much in doubt.

The Science Place Canada decision was particularly troublesome because it struck right at the heart of our industrial strategy. And, it seemed to be aimed directly at Manitoba, since other federal research and development projects elsewhere in Canada apparently went ahead. Science Place Canada is still virtually empty.

When those decisions were announced, many Manitobans remembered a time—about two decades ago—when an earlier federal government ripped a hole in the industrial fabric of our economy by condoning a massive shift in Air Canada maintenance workers to Montreal. I have seen figures which indicate that, in today's terms, that decision probably accounts for about 5,000 direct jobs and another 5,000 indirect jobs—10,000 jobs that could have been in Manitoba.

But, despite that shift, Manitobans have continued to work hard in the aerospace industry, and we have built up a world-class aircraft maintenance capability. **In the CF-18 competition, we showed that we can compete with the best—and win strictly on merit.**

But what happens when we do? We are faced with a political decision that the work involved is supposedly better done elsewhere—a "judgement call" based on criteria which seem to us to be close to rationalizations.

Prime Minister...you have heard business and labour leaders from Manitoba ask what that decision means for the future of our province...whether it means we can't expect fair treatment in the future...whether it means that, whenever our province starts to challenge the established order, the federal government has to intervene to keep the status quo from being significantly upset.

Prime Minister...the CF-18 decision caused such an outcry in Manitoba because it was so clearly unfair in our eyes.

So often, we have been told that economic decisions which favour some other province or region over Manitoba have to be made because of so-called "market forces." Here, where those same market forces, for once, favour Manitoba, we are then told that there are other reasons why the decision has to go against our province.

Laissez-faire economists have argued for 200 years that it is the "invisible hand" of the market system that ensures the most rational and efficient allocation of resources. It seems, however, that the Canadian market system has two invisible hands—the second based in Ottawa.

Let me be more clear. **Our government does not believe that the so-called "invisible hand" of the market always ensures the right decision. If our ancestors had been concerned only about market forces, the idea of establishing Canada and extending it from sea to sea would have been abandoned long ago. What we do believe, though, is that when governments intervene in market decisions, they should do so on the basis of clearly established ground rules, that are fair.**

So...what can be done now to deal with the concerns I have identified?

First—there are a number of particular issues between the federal government and Manitoba which must be dealt with in the near future. Prime Minister...I am hoping that we can confirm, very soon, a date for our bilateral meeting in Winnipeg early in the new year.

Beyond our own specific concerns, however, I would like to hear the views of other First Ministers on whether there is interest outside Manitoba in the need to look for new and more credible systems of decision-making with respect to major public contracts such as the CF-18.

I believe the Auditor General has indicated that he plans to report on the Department of National Defence's procedures in this regard sometime late next year. But I would like to see our governments look at some options sooner.

Regional Development Ministers have had some discussions on this subject, but I would like to see a more directed review of tendering and procurement policies, followed by some solid recommendations on new and more acceptable mechanisms that we as First Ministers could act upon, either at our conference next year or sooner, if possible. One idea would be an independent monitoring group or commission—a sort of Ombudson's Office for major contracts.

Certainly, we, for our part, would be prepared to have our own purchasing policies looked at as part of such a review—and we think the private sector must be involved directly and fully.

The overall objective would be to ensure that the rules are as fair as they can be to all parts of the country, and that they are as clear and well understood as possible—so that all provinces, large and small, can be assured of equity.

Where latitude has to be allowed for discretion by governments—let that be spelled out much more clearly, and let there be reasonable room for consultation and debate before the decision is made.

One of our greatest concerns in Manitoba is that a decision like the CF-18 decision not be allowed to happen again...to us, or to any other province.

Hard choices must continue to be made by the national government—and by the provinces—but we should strive to ensure that those choices can be seen to be fair.

We offer our co-operation in an effort to develop such a system, and would hope you will reciprocate.

Other Key Tests of Fairness

Prime Minister...the federal government can also demonstrate its commitment to fairness by dedicating itself to early action on several of the other key items we'll be dealing with on our Agenda today and tomorrow.

- First—the fiscal arrangements, and particularly equalization.

  This national program is one of the most important unifying features in Canada. It has been called the "cornerstone of Confederation," and it is now a part of our Constitution.

In August in Edmonton, all ten Premiers not only called on the federal government to ensure that the Equalization Program meets its constitutional commitment but also emphasized concern about unilateral and disruptive federal changes. **Our communiqués stated that Premiers "view the current reduction in the growth of federal transfers for social programs as a temporary measure and reiterated the importance of adequate federal funding for these programs."**

Five years ago, the previous federal government drastically altered the equalization formula to cut costs. The result has been a significant decline in equalization payments relative to Gross National Product from over 1.3% of GNP to about 1% of GNP now. In fact, current federal estimates envisage $700 million less in equalization support for 1987/88 than the $6.2 billion included in federal fiscal plans in November, 1984. Recently, some "technical adjustments" have been proposed by this federal government to add, perhaps, a fraction of a per cent to the now reduced base of the Program over the next five years. Those adjustments also fail to compensate poorer provinces for the health and higher education funding cutbacks imposed in Bill C-96.

Manitoba faces a significant absolute decline in equalization support of $43 million next year, even after the "technical adjustments" are factored in, and despite increasing needs. I believe your own Finance Minister will tell you, Prime Minister, that, **once again, Manitoba is the only equalization province facing a payment drop next year.**

Both your government and that of your predecessor have provided some offset support for our province since the national average formula was scrapped in 1982. Regrettably, our need for that kind of support will continue for the foreseeable future unless more equitable arrangements are implemented.

Smaller provinces have tried to argue time and again that the Equalization Program is "not" a Program like the others...that the current constitutional mandate for the formula is not being fulfilled, and that this mandate will grow even further out of reach in the years ahead, not only for Manitoba but for the other recipient provinces.

We are talking about a Program designed to ensure that public services in the "have-not" provinces can be brought up to a level where they are reasonably comparable with those in other parts of the country. That is critical to regional development...and it is the kind of fairness which is essential to maintaining our national consensus.

At an absolute minimum, fairness demands that the share of Canada's resources assigned to equalization be returned at least to their level of five years ago.

To this end, Finance Ministers should be directed to work, on an urgent basis, and report back to us before year end with options and recommendations.

- On the issue of tax reform, the Government of Canada has stressed that fairness will be a dominating principle.

  That is an encouraging and long overdue commitment.

  We have suggested, however, that if the federal government is indeed committed to making the tax system fairer—to ensuring that wealthy Canadians and large corporations pay a fairer share of the costs of public services through their taxes—then they can signal that intention in a positive and convincing way by freezing the extra Capital Gains Tax breaks for wealthy Canadians and the Corporate Tax Rate reductions scheduled for next year.

  Fairness to smaller provinces is also a tax reform issue on which close consultation will be important, there is concern that some options could result in less well-off provinces and regions bearing a larger share of the overall tax burden than at present. We would welcome assurance that appropriate measures to redress such unfair regional impacts will be incorporated into the final tax reform package.

- Fairness for small provinces is also an important underlying issue in the trade negotiations. That is why provinces have pressed the federal government to fulfil its commitment to ensure "full provincial involvement" in the negotiations.

  I know, Prime Minister, that we will be having some discussions of trade matters in private. However, **I do feel compelled to raise here the issue of your proposed drug patent legislation...to advise you that Manitoba opposes it...and to urge that it be withdrawn.**

  Although the legislation would impact negatively on provincial governments which have Pharmacare Programs—despite a short-term, partial "cushioning" provision—the greatest fairness issue here seems mainly to affect elderly and lower-income Canadians who have benefited most from lower-cost generic drugs in the past.

  Surely the profit positions of the multinational drug companies should not be the main determinant of national policy in this situation. It has been suggested before that some of the same companies which stand to benefit under your new drug patent legislation are the very companies which have been overcharging Canadian farmers for chemicals—for fertilizers and weed killers—for many years.

  No doubt some of those same companies are lobbying hard for an extension of so-called "intellectual property rights" under the trade negotations so that they can extend plant breeders' rights to cover new seed varieties, and gain even greater inroads into the agricultural sector.

- **Fairness is also an issue, of course, in agriculture—in the overall treatment of our farm producers.**

  Fairness demanded the decision to commit substantial additional federal funds to deficiency payments to help Canadian farmers, and fairness now demands that how and when those payments will be made, be announced without much more delay.

- The federal government can also demonstrate its commitment to fairness to small provinces in the area of regional development policy.

  Earlier, I expressed concern about data indicating an apparent shift of federal industrial support into Central Canada.

  And, there have been similar concerns about shifts in the allocation of other forms of regional development assistance. **One possible solution, which was suggested by Manitoba's Minister Responsible for Regional Development a few weeks ago, would be a regional economic development "block fund"**—with clearly defined allocation rules. As in so many other aspects of governmental activity, it is not only important to be fair, it is also important to be seen to be fair.

  I note that the Atlantic Premiers seem encouraged by recent initiatives aimed at directing additional funds into that region, and improving the co-ordination of development efforts there. At the same time, of course, they have also expressed major concern about possible changes in the Unemployment Insurance Program which could undercut the benefits of the new federal measures.

  I agree with some o the other Premiers who have emphasized the importance of full federal-provincial consultation before any decisions are made to reduce UIC benefits following the release of the Forget Commission's recommendations.

- Federal transportation policy, too, demands fairness to smaller provinces and regions. In this connection, **I would urge the Government of Canada to consider the negative effects, especially for smaller rural and remote communities, of its so-called deregulation plans for air services, and its accompanying plans to cut back support for airports.** A great many municipalities have protested those cutback plans, coming as they do at a time when provincial and local governments—again, especially in smaller provinces—are unable to meet existing needs for infrastructure repairs and improvements.

  A particular concern in Manitoba, Prime Minister, is the future of the Port of Churchill and the political will of the federal government to ensure the viability of our northern Port. I commend to you the Communiqué in support of Churchill's future which was issued by the Western Premiers at our last Conference in Swan River in May of this year.

- Prime Minister...I commend to you as well the proposal which I put forward to you nearly six months ago, on behalf of the other Western Premiers, for a special Conference on Western Economic Development and Employment Opportunities. While we were encouraged by the mention of the western diversification goal in your October 1 Throne Speech, we had hoped for a specific response on our conference proposal.

  There have been suggestions that the federal government has done enough for Western Canada already, but I don't believe that view is held too widely here in the West.

  You may recall that I wrote to you, as Chairman of this year's Western Premiers' Conference, to propose that a Ministers' Steering Committee be set up to work on arrangements for a Western Economic Opportunities Conference. I believe that idea is still worth considering.

- I want to turn finally to economic equality for women—a goal correctly defined in terms of the fairness principle, but a goal which remains a long way off.

  The Government of Manitoba has argued repeatedly for a strong national action plan to guarantee significant progress toward economic equality for the women of Canada. And, for two years, we have proposed that that action plan include a national daycare program—a program which could be funded at a reasonable incremental cost to the federal government—and which could be designed to include a differential cost-sharing formula to make the costs for the smaller provinces fairer.

  That's the same kind of principle that used to apply under several other major national programs—in an era when "co-operative federalism" was the guiding principle.

  I am pleased that we will have an opportunity to discuss this matter at some length tomorrow morning.

  In the interim, however, I will ask the Secretariat staff to circulate some background and position papers we have prepared on Economic Equality for Women, as well as on the other key issues I have mentioned.

  I would welcome the comments of other First Ministers on these papers later in our discussions or in the weeks and months ahead.

  You will note that they all place major emphasis on the issue of fairness to small provinces, a concern which will also guide our governments' positions in further discussions of trade and the Constitution.

Conclusion

Prime Minister...when we met in Ottawa earlier this month, I said that for decades, a succession of Manitoba Governments has taken much the same position as we have on the issue of fairness for small provinces in our Confederation.

As a small province we must rely on a strong central government to protect our interests.

Premier John Bracken of Manitoba said that.

Premier Duff Roblin of Manitoba said that.

Premier Ed Schreyer of Manitoba said that.

Premier Sterling Lyon of Manitoba said that.

And I have said it, in this forum and elsewhere.

I still believe, very strongly, that our traditional support for a strong federal government is the right position for Manitoba, for other small provinces, and for our country.

But, through the CF-18 decision and some others in the past two years, the Government of Canada has raised new doubts about that position in the minds of many, in our province and in others, where reliance on a strong national government has been an article of faith.

This morning, I have suggested several ways in which the federal government can demonstrate its commitment to fairness and start rebuilding some of the trust it has lost.

I offer, as well, my personal commitment, and that of my Government, to work co-operatively with the Government of Canada on these priorities, regardless of political differences.

Thank you, Prime Minister.

Honourable Eugene Kostyra
Manitoba Minister of Finance

Notes for a Statement on TAX REFORM to the Finance Ministers' Meeting

Toronto, Ontario—December 12, 1986

Introduction

Mr. Chairman:

Before beginning my remarks on the issue of national tax reform, I would like to thank your government for the briefings provided by your officials during the last few weeks. You are, of course, aware that Manitoba has long regarded national tax reform as a priority matter on Canada's political agenda. Accordingly, our Government is pleased that this issue is finally receiving more attention.

The most important source of revenue—income tax—is explicitly shared between the federal and provincial governments. And, there are important indirect linkages between federal and provincial sales taxes. These relationships mean that **tax reform must involve federal-provincial co-operation.** As well, significant agreement on the basic purposes for the effort, and the means used to accomplish the intended results, are also required in order for a major reform to be successful.

While definitive positions on many, perhaps most, of the critical questions have not been firmly established, the range of issues "on the table," and receiving serious attention, is quite comprehensive. The scheduling of consultations may present some difficulties; it is important that as many issues as possible are considered by both levels of government before positions are firmly set.

At the outset, I would like to indicate that Manitoba supports "base broadening" as a major feature of tax reform. While some rate reductions are also desirable, we do not believe that the U.S. rate structure should be the ultimate goal of the exercise. A fixation with U.S. rates will not be helpful in developing a tax system designed for Canadian conditions and needs.

Manitoba remains concerned that a **major shift from income to consumption-based taxation is likely to be inequitable both for low-income people and for the poorer regions of Canada.** This type of shift in the mix of taxes and from the manufacturers' sales tax to the broader business transfer tax will almost certainly result in added cost pressures on provincial health care, educational and housing institutions and agencies. We are also concerned about the effects of such shifts on costs and competitiveness in regions beyond the Golden Triangle.

It is important that meaningful consideration of these issues commence quickly. Adequate solutions must be developed as part of the tax reform process. Low-income people, poorer regions and publicly funded service agencies must be assured that action will be taken up front. Vague commitments to "do something by and by" will not be sufficient.

At the Vancouver First Ministers' Conference last month, our Government released a paper outlining Manitoba's Position on Tax Reform. My comments today re-emphasize the main points covered in that document, and elaborate on some fundamental concerns which our Government believes must be fully considered before a final tax reform package is developed.

Fairness

Our Government is firmly persuaded that the driving motivation behind a comprehensive tax reform initiative must be the desire to make the tax system fairer. Canadian taxpayers must be assured that their contribution to the financing of essential public services reflects their individual ability to pay taxes, and that other Canadians in the same circumstances are contributing the same amount.

No source of income should be more "sacred" or worthy of special treatment than any other. Since any individual's or family's ability to pay taxes must recognize the cost of providing for an adequate standard of living, a fair tax system will also incorporate a reasonable degree of progressivity. People who are relatively better off should pay relatively higher taxes.

Ultimately, the basis on which Canadians will decide whether tax reform has succeeded or failed will be the fairness of the new system. **The blatant inequities in the present tax system mean that anything less than major improvements would be a national tragedy.**

Manitoba is concerned that secondary considerations, simplistic Canada-U.S. tax comparisons, efficiency, and savings incentives, for example, must not become the primary motivation for tax reform in our country. Canadians want a tax system that ensures all taxpayers are treated fairly. They should not be asked to accept less.

Revenue Adequacy to Sustain Public Services

Canadian governments are all facing the challenges of preserving and protecting important public services in an extremely constrained fiscal environment.

All responsible governments are acutely aware of the public's need for basic services: medical care, education, income protection for the elderly, the unemployed and other disadvantaged Canadians, and the reality that these needs will not diminish in the foreseeable future. The dilemmas presented by the continuing economic transformation, the deteriorating environment, and the ongoing crises in several major primary industries, will add to governments' obligations.

No civilized society can walk away from these problems. Each government represented here today was elected with a mandate to deal with these and other challenges positively and creatively. The discussions on tax reform cannot proceed as if these issues did not exist.

As the federal and provincial governments prepare their budgetary policies for the coming year, **setting priorities and adjusting resources will require difficult and painful choices.** The inexorable erosion of revenue bases, the gross inequities which have accumulated and undermined the integrity of our major taxes, have distorted the decisions in an unnecessary and profoundly harmful way.

Tax reform must provide a solid basis for restoring balance to this corrosively one-sided approach to meeting budgetary challenges.

Balance of Corporation and Personal Taxes

Tax reform must check and reverse the trend toward ever greater tax burdens on individuals and less responsibility on the corporate sector. The dimensions of this shift during the last three decades are truly alarming. **In the mid-fifties corporate and personal income taxes contributed roughly equal amounts to the federal Treasury. Today corporate income taxes comprise less than one-quarter of total income tax revenues.**

In our view, corporations and particularly large corporations must pay their fair share. In 1981, almost 60% of Canadian corporations paid no income tax and of these some 46% were profitable. For that reason, we have called for substantial base broadening and loophole-closing in corporate taxation. We have questioned the provision of full dividend tax credits when corporations pay little or no tax. We have also called for a minimum tax to secure a reasonable contribution from *all* profitable corporations.

Manitoba is concerned that an obsession with matching U.S. corporate rate reductions will place an arbitrary and unacceptable constraint on the degree to which an appropriate balance between personal and corporate taxation in Canada can be restored. To be fair, **any focus on comparability with U.S. taxes should also include differences in tax regimes, such as full taxation of capital gains, no tax shelters for high-income people and full taxation of dividend income without tax credits.**

Provincial Flexibility and Revenue Stability

One of the major strengths of the Canadian income tax regime is the system of federal-provincial tax collection agreements. These agreements, along with the restraint exercised by provinces which do not fully participate in these arrangements, have largely prevented the emergence of the "tax jungles" common among states with two senior jurisdictions. The benefits to taxpayers of generally having only one set of basic rules, and one administrative body to deal with, are considerable and should be preserved.

Unfortunately, the tax collection agreement system has also become a serious shortcoming from the perspective of harmonious fiscal relations between federal and provincial governments. For these arrangements to work, provinces cannot be subjected to large, unilateral, unnegotiated changes, implemented without advance warning and significantly affecting provincial revenues. **The income tax base must be respected as a shared responsibility.**

The tax reform process may present a unique opportunity to develop new mechanisms which would significantly increase the range of less disruptive tax policy tools available to the federal government, and increase the flexibility of provincial governments to tailor their tax systems to local conditions. Specifically, **provinces should have the ability to levy personal income taxes directly on taxable income,** rather than the current tax-on-tax approach. This convention already exists for the corporate income tax, and there are no significant obstacles to extending the same arrangements to the personal income tax.

Capital Gains and Pension Contribution Preferences

The 1985 federal Budget Address introduced a $500,000 lifetime capital gains exemption to be phased in by 1990. The upper limits for tax deductible contributions to pension savings are also slated to rise to $15,500 in 1990. For 1986, the capital gains exemption is $50,000, and the RRSP contributions limit is $7,500.

It is important to remind ourselves of what these changes mean for ordinary working Canadians—extra taxes.

- In 1983, less than 5.5% of working Canadian taxpayers received any capital gains income at all. The average taxable capital gains reported by these individuals was about $750.

- Working taxpayers' contributions to taxable income was almost 80%; their share of capital gains income was 19%. In contrast, the 7.4% of taxpayers who were professional investors, doctors, lawyers, accountants, and other professionals, received 67% of capital gains income.

- 60% of capital gains was received by individuals with incomes of more than $50,000.

- The RRSP limit increases are explicitly designed to provide tax assistance to help individuals to accumulate annual pensions of $60,000 – about 2 1/2 times the average industrial wage.

It is readily apparent that the benefits from these two measures, totalling about $1.7 billion annually by 1990, will be heavily concentrated among upper-income individuals. Ordinary working Canadians should not be asked to subsidize wealthier people through higher income taxes, higher consumption taxes, and deteriorating essential services.

The Business Council on National Issues recently recommended that the lifetime capital gains exemption be abolished. **When the very groups the lifetime exemption was designed to benefit recommend it should be abolished, government should listen.**

Recently, the federal government announced complex anti-avoidance rules to prevent abuse of the capital gains exemption through sophisticated and successful efforts to convert ordinary income into exempt capital gains. Clearly, that kind of misuse of talent and resources will continue as long as capital gains are largely tax-exempt.

The recent U.S. move to apply full taxation to capital gains has drawn much praise. As *Business Week* reported on September 15th:

> ...the bill taxes capital gains the same way as other income. Over the years, the preferential treatment of capital gains has probably accounted for more complexity and chicanery than any other provision in the tax code. Millions of hours of talented labor have been wasted in the modern alchemy of transforming leaden ordinary income into golden capital gains through schemes that benefit the richest taxpayers almost exclusively. Now all this will end. The lower 99% of income recipients thank you.

Instead of striving to emulate the U.S. on tax rates for the wealthy and big corporations, we should improve fairness and tax capital gains.

Manitoba has called for an immediate freeze on the capital gains exemption and RRSP contribution limits. This would demonstrate to Canadians that fairness is really the central goal of tax reform.

Conclusion

I would like to commend the federal government for opening the consultative process to provincial input. We are convinced that if our concerns are adequately reflected in the final package, the result will be a better and fairer tax system. Ultimately, the tax reform effort will be judged, not by the process, but by the result.

As the consultative process proceeds, it is crucial that the principles guiding our deliberations are not lost in the welter of technical detail. Obviously, we must "get the pieces right," but we cannot lose sight of the total picture.

The "official" federal Guidelines published in October – quite correctly – indicated, at the outset, that "we need a fairer tax system consistent with the commitment of Canadians to greater social justice." We are obviously concerned when, just over a month later, in describing the "key objectives of tax reform in Canada" to the Canadian Tax Foundation, the "central objective" appears to have become "to get rates down."

"Getting rates down" is not – in Manitoba's view – the first priority of tax reform. It is not even the second or third. **The overriding goal of our efforts must be to build a tax system which treats Canadians fairly, which deals with the growing imbalance between personal and corporate taxation, and which generates the revenues federal and provincial governments require** to fulfil the responsibilities entrusted to them.

If we can agree on this, I believe our deliberations over the next weeks and months will be constructive and fruitful.

Honourable Eugene Kostyra
Manitoba Minister of Finance

Notes for a Statement on FISCAL ARRANGEMENTS to the Finance Ministers' Meeting

Toronto, Ontario—December 12, 1986

Equalization Under Review

At our last meeting in Edmonton, we spent a great deal of our time on the issue of equalization. That was as it should be, for equalization may well be judged as Canada's most important fiscal transfer program. It can be structured to provide federal assistance where and when it is most needed, and it provides the foundation for equal opportunity and benefits for Canadians in all regions.

Equalization has often been described rightfully as a cornerstone of Confederation. It is a bread-and-butter issue in every sense of the word. It directly affects public services and tax levels of the have-not provinces, and it is an essential element in our country's commitment to balanced economic development and job opportunities in all regions. The formula for calculating Equalization for the 1987 to 1992 period will be included in federal legislation to be brought forward by the end of March. It is important that we assure that the new arrangements yield results which are supportive of the kind of Canada all Canadians envision.

Regrettably, we did not arrive at any consensus in October. As you put it in your remarks to the media after the Conference, it was "back to the drawing board" on equalization. I took that as an indication that new federal proposals would be forthcoming. I was further encouraged by the Prime Minister's comments at the First Ministers' Conference in Vancouver last month, that the federal government "is ready to enrich that formula, to be helpful to provinces who should receive equalization," and that this important question would be discussed today.

Unfortunately, we are still waiting for some substantive federal proposals to be brought forward, and for meaningful consideration of the analysis and proposals presented by virtually all provinces at previous meetings. All that we have heard from federal officials is that they entered the equalization review with both eyes transfixed on the federal deficit, that provinces knew that that was the federal view, and that therefore no real effort to revitalize equalization should be expected.

Provinces have presented analyses clearly showing that the current equalization formula has not been performing as anticipated by the federal government at the onset of the discussion 18 months ago. **The formula is inadequate, unfair and lacking in internal integrity. The current equalization formula is incapable of fulfilling the Constitutional commitment to enable provinces "to provide reasonably comparable levels of public services at reasonably comparable levels of taxation."**

The Technical Adjustments

A limited number of technical adjustments to the formula have been proposed by the federal government. These technical adjustments have the result of adding to or reducing the entitlements of individual provinces, and some extrapolations of data suggest they yield small overall benefits to provinces.

The technical changes can, on balance, be regarded as improvements to the detailed calculations in the formula; yet they contain imperfections. The proposed exclusion of sales taxes on machinery and equipment from the formula means that the relatively low tax base for Manitoba and some other provinces will go unrecognized. The proposed property tax base adjustments fail to recognize the higher value of the industrial and commercial property tax base in urban areas. Nor is the provinces' increasingly limited ability to raise property taxes from farm land fully recognized. Serious consideration should be given to the removal of farm land entirely from equalization to more adequately reflect the real property tax base of provinces. The proposed lottery revenue change phases in adjustments which should logically be incorporated in whole immediately. Saskatchewan remains concerned about tax-back problems.

Again however, Manitoba has no objection to the federal suggestion to incorporate the package of changes in the formula in 1987/88 and to continue the review of outstanding technical issues after March 31, 1987.

Some tentative federal estimates have suggested the entire package of changes now proposed might yield up to $174 million in additional equalization payments annually.

Inadequate Equalization Payments

However, whatever the actual effects of the technical changes become as current data is utilized, it is clear that the figure will pale in magnitude to the downward revisions in estimates of equalization entitlements since the fall of 1984. The current federal estimates for equalization are $700 million less for next year, and $1 billion less for 1988/89 than the estimates of only two years ago when the equalization review was beginning. In other words, the federal deficit next year is $700 million lower and the deficits of poorer provinces are $700 million higher as a result of these changes in equalization support levels. And, federal Finance is refusing to provide estimates of the magnitude of the equalization fall-off in subsequent years.

A further indication of the fundamental failings of the current five-province formula is the fact that the benefits to provinces under the Equalization program have shown virtually no growth since 1982/83. And, the proportion of GNP allocated to equalization has fallen from 1.3% to 1.0%.

Finally, the use of ad hoc arrangements, including the Supplementary Equalization Payments introduced last year, suggested that the federal government understood the inadequacy of the 1982 formula and would be prepared to overhaul the basic equalization formula in keeping with the needs and realities of provinces through the early 1990s.

In addition to the need for a substantive formula change, the experience of the past five years also provides convincing evidence of the need for a clause at least to protect provinces against losses in equalization support while measured need was increasing. A strengthened clause to curtail equalization losses when a province's measured need is declining should also be considered to minimize disincentives to provincial development programs. The current 15% floor may not be sufficient in a period of low inflation and limited revenue growth. In principle, support should be reduced only when a province reaches the national average ability to raise revenue.

In the face of the reality of inadequate equalization support to poorer regions, and the $1 billion drop in projected payments, federal argumentation that provincial requests for improvement in the formula are unrealistic because of federal fiscal problems is simply not convincing. **Equalization growth from $4.9 billion in 1982/83 to $5.4 billion in 1986/87—averaging less than 2% annually—has not been a contributor to the rise in the federal deficit to over $30 billion currently.**

Equalization Need

There has been a lot of focus on the federal deficit. But, the issue of federal transfer payments must also be considered from the perspective of the provinces. By 1990/91, $5 billion annually will have been cut from federal support to health and higher education, including the loss of the Revenue Guarantee commencing in 1982, the capping of the so-called "post-secondary education portion of EPF" for 1983 and 1984, and the recent Bill C-96 measures limiting support to 2% below growth in the economy. These cuts are placing enormous strains on provinces striving to maintain quality health and education services for all Canadians.

The strains of per capita federal cuts made across provinces—rich and poor alike—are felt more acutely in the equalization-recipient provinces who have less than average ability to absorb or compensate for them. If citizens in the less well-off parts of Canada are to suffer only equal pain as a result of these reductions in planned support, some adjustments, in equalization or elsewhere, must be implemented. To date, the Equalization program has not compensated for any of these losses.

Mr. Chairman, during the discussion on Bill C-96, Manitoba was pleased to hear the federal recognition that equalization could be used to soften the effects on the equalization-recipient provinces, which total $700 million next year alone. That is another reason why federal response to proposals to enhance the equalization formula is crucial. Inaction would mean that that harshness of Bill C-96 will continue unabated, with serious consequences to the poorer regions of the country.

In view of all these concerns and mindful of the Prime Minister's oft-stated concern for fair treatment of the provinces and a new spirit of co-operation, Manitobans look forward to progress on proposals gradually to enhance the equalization formula toward a national average standard. Such proposals must be given immediate and serious attention. It is still not too late to put us on a fairer course for the good of all of Canada.

The inclusion in 1982 of the equalization principle in our Constitution must not be mocked by leaving in place a grossly inadequate and unfair formula under which the national commitment to equalization continues to erode. Citizens in the poorer regions must not be treated as second class by a national government which ignores the national obligation "to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation." The social contract which has built and binds this nation must be honoured.

Conclusion

In our view, there is sufficient time between now and the expiry of the 1982 equalization legislation on March 31, 1987 to complete the assessment of needed improvements to equalization. We are not convinced by arguments that there is no time. But, if the federal government concludes that the time is too limited to consider necessary revision of the arrangements, any legislation should only be imposed for a single year rather than the full five-year period to 1992.

Equalization Support

TOTAL RECEIVING PROVINCES

	Support	Annual Change		Cumulative Change	
	($ millions)	($ millions)	(%)	($ millions)	(%)
1982/83	4,865.1				
1983/84	5,229.2	364.1	7.5	364.1	7.5
1984/85	5,430.3	201.1	3.8	565.2	11.6
1985/86	5,297.4	(132.9)	(2.4)	432.3	8.9
1986/87	5,351.0	53.6	1.0	485.9	10.0
1987/88p	5,513.0	162.0	3.0	647.9	13.3

p—projected.

Note: These estimates project $458 million in equalization support for Manitoba in 1987/88, $53 million less than budgeted in 1986/87. Technical adjustments, if adopted, would reduce the year-over-year loss in federal support to $43 million.

Sources: Federal Finance—Current Estimates—October 1986.

Honourable Eugene Kostyra
Manitoba Minister of Finance

LETTER ON EQUALIZATION
to Honourable Michael Wilson
Minister of Finance, Government of Canada

Manitoba

Minister of Finance

February 2, 1987

Honourable Michael Wilson
Minister of Finance
Government of Canada
Place Bell Canada
160 Elgin Street
OTTAWA, Ontario
K1A 0G5

Dear Mr. Wilson:

On January 23, 1987, the Federal-Provincial Fiscal Arrangements Subcommittee met to review elements of the legislative and regulatory changes concerning the Fiscal Arrangements Act with which you propose to proceed prior to March 31, 1987.

The Government of Manitoba has consistently taken the position that the federal proposals have the effect of further reducing equalization as a national priority. We have stated that the effects of federal cutbacks in funding for health and higher education would fall most heavily on the equalization-recipient provinces. Assurances were given that the fight against the federal deficit would not be fought on the backs of the provinces and that greater difficulties of the poorer regions in coping with federal government transfer cuts would be acknowledged and ameliorated. The proposals now being drafted into legislation run counter to those assurances.

The inadequacy of the current five-province standard has been well documented by Manitoba, other provinces and knowledgeable independent observers such as Mr. Thomas Courchene. The fact that federal expenditures on equalization have consistently fallen below projections in your own fiscal frameworks indicate to us that some fiscal flexibility should exist to improve the Equalization program. Yet, you have made it abundantly clear that the federal government does not intend to enhance the program.

What is most discouraging is the current proposal to go even further and to "rebase" the equalization ceiling to the 1987/88 payment level escalated by the factor of Gross National Product growth. This rebasing makes permanent for the next

five years the reduction in the share of nation's resources being provided through the Equalization program to the poorer regions of Canada. As you are aware, equalization was the equivalent of 1.34% of Gross National Product in 1982/83 (the current base for the ceiling) but is falling to under 1.1% next year under the latest projections which the federal government has made available to us.

As you quite rightly noted at our last Federal-Provincial Finance Ministers' Meeting, Equalization is a program related to the disparities between provinces, and as such need not in principle grow at a rate equivalent to national economic growth. We would agree. Depending on disparities, equalization growth either faster than or slower than GNP growth would be appropriate. In this connection, Manitoba has argued that the unanticipated gap between actual equalization growth and economic growth ought to be used to enhance what we believe to be an inadequate standard for equalization.

However, your words on the appropriate driving forces of equalization now appear to be quickly forgotten and, should disparities between have and have-not provinces increase, a newly reduced ceiling would come into effect to limit the growth of equalization payments, relegating residents of poorer provinces to even poorer treatment. Disparities between provinces, as measured by the equalization formula, have lessened somewhat in recent years, but there is no reason to believe that the equalization-recipient provinces will grow at a rate exceeding those in the five-province standard after 1987/88. It is more a 50-50 proposition with respect to the odds. Under your proposal, if recipient provinces grow faster, the federal government will gain through reduced equalization payment requirements. However, if recipient provinces grow more slowly, the ceiling will limit federal obligations. This is patently a one-sided bargain.

The lower ceiling is particularly inappropriate in the light of the deficits in recipient provinces and need for provinces collectively and in general to increase taxes in part to offset other federal transfer payment cutbacks such as the reduction ($2 billion annually by 1990/91) in federal payments for health and higher education. Earlier, it was recognized that those provinces with lower fiscal capacities would have greater difficulty in making up the lost federal revenue. However, it was generally thought that the Equalization program would ameliorate some of the disparities in provincial capacity to raise necessary additional revenue. However, with the ceiling, additions to provincial revenue in all provinces would only be fully equalized if concurrently there were a reduction in the disparities between provinces which allowed some room under the ceiling.

Put simply, Manitoba believes that the cuts in federal transfer payments already impact most severely on the have-not provinces and that the current proposal to rebase the equalization ceiling below the 1982/83 level while maintaining a five-province standard compounds the unfairness.

Of course, it is also recognized that the change in implementing the ceiling provisions to a per capita amount from percentage of equalization would, once again, have a greater negative impact on Manitoba than on most other equalization-recipient provinces.

The interaction of any adjustments due to the ceiling and the equalized EPF tax transfer reduction to derive EPF cash payments is unclear. Federal officials were unable to answer questions raised by provinces.

Having expended our collective energies examining technical tax base changes to improve the measurement of fiscal capacity disparities, it is difficult to accept the proposal to continue to underpay provinces by 50% for one year based on less accurate formulations.

The calculation and payment of Supplementary Equalization had encouraged Manitoba to believe that the federal government recognized that a year-over-year loss of 15% of equalization revenue (approximately $75 million for Manitoba; $350 million for Quebec) would be unduly harsh and that the floor payment should be 95% of the prior year's equalization support for all provinces, not solely the Atlantic provinces.

Two related issues which are not directly within the proposed legislative package also deserve attention. First, the proposed exclusion of the softwood lumber export tax from equalization represents a denial of the equalization provision of the Constitution and a glaring inconsistency in view of the fact that stumpage fees are equalized. The provisions for exclusion of these revenues from equalization contained with Bill C-37 means a legislated increase in disparities within Canada. That is unacceptable and must be changed.

Second, there is the wild card of census population counts. In our view, estimated EPF and equalization entitlements for 1987/88 must be based on the most accurate and complete population statistics available. Within Manitoba, the Provincial Government costs in serving the health, education, law enforcement, social service and other needs of its aboriginal people are very high in spite of the range of additional services available to some provided directly by the federal government. Despite the refusal to be enumerated, all Indian citizens must be included in the population totals on which EPF and Equalization are based. While Statistics Canada may not have finalized its adjustments for the refusal of the reserve population and other factors, federal Finance should use the most complete figures available, even if they represent interim estimates. The impact of population adjustments on entitlements must be examined carefully.

While the federal government and the provinces have had extensive discussions on Equalization, serious disagreement has arisen. Federal relations with the provinces are far more strained than they have been for several years. It is well recognized that this has not been your intention, but is the effective result, I believe, of federal officials not completely understanding provincial fiscal circumstances and the important roles and interrelationships of federal transfers within our fiscal situations.

The Government of Manitoba still has hope for a rekindling of co-operative federalism. For this reason, we once again propose that the federal government and the provinces extend their discussions for another year in order to attempt to reach some consensus on that cornerstone of our federation, Equalization, particularly in the light of new fiscal forecasts to be available over the next few months. In this regard, it is noteworthy that Quebec and Newfoundland officials estimated that the effects of the population adjustments alone could reduce federal commitments by up to $800 million in 1987/88.

Given the discord, the loose ends and the uncertainties, Manitoba suggests that the legislation be brought forward to make provisions for the coming fiscal year and we dedicate ourselves to work together on improvements to the equalization formula.

Finally, as you know, even without the population effects, Manitoba faces a major drop in equalization support in 1987/88. We remain very much interested in any proposals you may have to cushion this blow. As I have pointed out many times, we continue to feel as a matter of principle that equalization support should not be cut when a province's measured need is increasing.

Yours truly,

Eugene Kostyra
Minister of Finance

c.c. Provincial Finance Ministers.